

MANAGING THE SUCCESSION PROCESS IN THE FAMILY BUSINESS:
A REAL ESTATE DEVELOPMENT PERSPECTIVE

by

JOSEPH ROSS HILL

B.S., Commerce
University of Virginia
1983

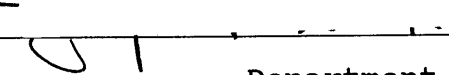
Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements of the Degree
of Master of Science in Real Estate Development at the
Massachusetts Institute of Technology

JULY 1989


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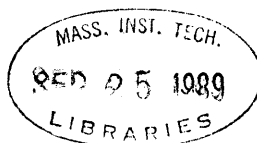

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SEP 25 1989

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ABSTRACT

Statistics indicate that ninety percent of businesses in the United States are family owned, yet of these, only thirty percent survive beyond their founder. This thesis developed out of the desire to gain insight into the issue of succession in family-owned businesses, with specific attention focused on the field of real estate development.

The study specifically examines succession with respect to the real estate development industry. Literatures on family business and family systems theory as well as succession from the non-family perspective are reviewed. The four stages of a life cycle model (*Owner-Managed, Training and Development, Partnership, and Transfer of Power*) are used to describe the succession process. The model used is a dynamic one, based on the generational life cycles of the owner/manager and the successor.

The study was informed further through the personal cases of family members involved in real estate development companies. Consultants who specialize in advising family businesses on succession also contributed to the study; their perspectives provided first-hand knowledge of the issues. Through the triangulation of this data, specific factors are identified which exert negative or positive influences on the succession process in family-owned, real estate development companies.

A principle finding of this study is that the probability of effective succession may be increased in real estate development organizations because of their highly divisionalized structure. A divisionalized structure

provides opportunities for family members to use their different skills and interests for the company's benefit, while at the same time, offers autonomy in the business environment. The effectiveness of the succession process, however, is influenced by many factors which relate to the owner/manager, successor, and organization. Succession is not a simple process. There is no "magic formula" for achieving effective succession, but understanding the process will increase the chances of an effective management transition between generations.

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ACKNOWLEDGEMENTS

I would like to like to acknowledge and express my appreciation to several individuals who have provided assistance and support in the course of this research.

Many consultants shared their time and knowledge with me, and I would like to thank Roderick Correll of the Family Firm Institute; Dr. Thomas Davidow, Genus Resources; Anne Geraghty, Geraghty & Associates; Marilyn Morgan, George Overstreet; Wendy Handler; Barbara Hollendar, Hollander & Associates; Gerald Le Van, Family Business Foundation; John Schoen, Institute for Family Business.

This research would not have been possible without those real estate development family businesses who participated in the study. I appreciate their genuine interest and willingness to provide insights about their personal experiences.

I would also like to acknowledge the faculty and staff at MIT Center for Real Estate Development. Many fellow classmates supported and helped guide me through the research process, in particular I thank Dan Musser for his assistance in facilitating one of the case study firms, and Steve Fowler for both his assistance and advice.

My thesis advisor, Gloria Schuck provided me with valuable guidance from the very beginning of this study. I give special thanks to her for her interest and dedication. I also wish to thank Sandra Lambert for her assistance. Her review and comments gave clarity to this study.

Special thanks also to Bruce Bernstein, who assisted in the design and production of the study's graphics. His encouragement and friendship were important to me during the period of research.

Finally, I thank my family, whose confidence and support were essential to the completion of this study. Their belief in the importance of continuing education and their ongoing involvement in a real estate development business inspired my own research directions.

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INTRODUCTION

*I stay too long by thee. I wear thee.
Dost thou so hunger for my empty chair
That thou wilt need and vest thee with my honours
Before thy hour be ripe? Oh foolish youth,
Thou seekest the greatness that will overwhelm thee.*

Shakespeare, Henry IV, Part II, Scene 5, lines 93-97.

For the past twenty-five years the popular press, business writers, practitioners and researchers have focused much attention on the topic of family-owned business. Moreover, the family-owned business has played a key role in shaping the economic policies and work ethic for the United States for the past 200 years. While the family-owned business has many unique characteristics which distinguish it from publically-held enterprises, even many of today's large successful conglomerates were founded by individuals with the support of family members. No other issue, however, proves more problematic for family businesses than that of the perpetuation of the business, or succession.

Statistics indicate that over ninety percent of businesses in the United States are family-owned. Yet only thirty percent of these family firms survive the transition to the second generation and only ten percent make it to the third generation (Beckhard and Dyer, 1983a and 1983b). Why is

succession such a problem to the extent that only three out of ten businesses stand a chance of survival?

The issue of succession in family-owned businesses must be differentiated from corporate succession. In the family business, personal relationships established within the family context are naturally brought into the family business environment. These family dynamics complicate the succession planning process for the family firm because succession becomes a non-market based transfer of wealth and power. Furthermore, because every family is different, a consensus on a theoretical construct of succession remains elusive; a standard prototype for a working model in family businesses has not evolved.

The motivation for this thesis is based on my personal history in a family firm involved in real estate development. As a next generation family member, I sought to understand both the advantages and pitfalls of my involvement in a family business. In my approach, I came to realize that some previous research has focused on the uniqueness of family business and some has focused on the subject of corporate succession, but relatively little attention has been given to the intersection of these two topics. And while some of the literature is applicable on a broad spectrum of family business industries, no specific data is available on real estate development companies. It is my hope that the methodology and conclusions presented in this study will help

family real estate development companies create a more systematic framework for examining their own plans of business perpetuity.

This thesis will address the issue of succession and succession planning in family businesses by examining the life cycles of the owner/manager and the successor(s). The issues of succession have both an economic and biological imperative, both of which are linked directly to issues of family dynamics. Because the perpetuation of the family business is based ultimately on both the Owner/Manager's and successors' relative life spans, the human age spectrum is used as an independent variable. The superimposition of these life cycles can be used to derive the stages of the succession process within the family firm by examining the potential for generational transfer (Churchill and Hatten, 1987).

Therefore, a time-based, analytical model is presented and refined, and in turn this model is then used as a framework for the analysis of actual case study empirical data in the field of real estate development.

Chapter One will review the relevant literatures. Section One of the literature review will refer to the importance and various business stages of the family-owned business. Section Two will examine the history of succession from the non-family perspective and the increasing importance of linking succession to other human resource management issues within corporations.

With this general understanding of family business and succession as a foundation, Chapter Two will specifically explore succession in the family business. Here, the importance of the family systems theory will be discussed. Based on the natural "*biological imperative*", the life-stage model will be presented so that succession may be viewed graphically and discussed within the context of the four stages of succession: *Owner/Manager, Training and Development, Partnership, and Transfer of Power*. Using conclusions of more recent research on generational succession, the analytical framework will be refined to enhance the discussion of the model's stages. The model is time-based, and thus it is adaptable for use in examining individual case studies for comparison and discussion.

Chapter Three outlines the field research methodology and criteria, and presents two real estate development case studies. Within the framework of the model, the analyses of the case studies are presented in Chapter Four. Finally, Chapter Five summarizes the implications for real estate development firms based on this research.

Also, it should be noted that a sampling of managerial consultants who specialize in counseling family businesses was interviewed for this study. Their insights and perspectives on succession, based upon first-hand experience in consulting with family firms, supplemented and enriched the results of

this research. Their contributions are referenced throughout this study and in the acknowledgements.

CHAPTER ONE

LITERATURE REVIEW

Introduction

This chapter provides a context for the focus of the research on succession in family-owned businesses. To understand the complexities of this issue, this research provides an overview of the "neighboring" subjects which are applicable to the specific topic of succession in family-owned businesses.

Section One of the Literature Review addresses family-owned businesses--their importance, business stages, and complexities. Section Two of the Literature Review examines succession from a broader-based, non-family perspective--its history and growing corporate linkage to other human resource management decisions.

The research of this section is based on: (1) a review of recent literature in both academic and trade journals, text books, and periodicals; and (2) interviews with consultants specializing in the field of family-owned businesses.

SECTION ONE

FAMILY-OWNED BUSINESSES

To understand the literature on family business succession, a brief definition of terms is necessary. There has been a lack of consensus as to what defines a family-owned business. For this study's purposes, Bork (1986) offers a workable definition, in that a *family business* is one that has been started by a family member and has been passed to or is expected to be passed to succeeding generations of the family, sometimes through marriage. Descendents of the original founder(s) will continue to own and control the business. Also, members of the family work in, participate in, and benefit from the enterprise. A *family member* is defined as anyone related to the family, by birth or marriage, or anyone related to the officers of the company.

Family business succession has been defined as the following:

"...the passing of the leadership baton from the founder/owner to a successor who will either be a family member or a non-family member; that is a 'professional manager'"

(Beckhard and Burke, 1983, p. 3).

Succession includes the transfer of both the legal ownership and the managerial leadership of the business. For purposes

of this study, emphasis will be on leadership succession, although it will not be as narrowly defined as the transfer of the "leadership baton." Such a definition implies that succession is a static phenomenon that occurs at a well-defined time in the life of the founder and the successor (Handler, 1989). This study maintains that family business succession is a dynamic process--one that can be mapped and described in detail from a family member's life-stage perspective.

IMPORTANCE OF PERPETUITY

Ninety percent of all businesses in the United States including corporations, partnerships, and sole proprietorships are family controlled (Mcgrath, 1988). It is further estimated that family-owned businesses account for a majority of jobs in the United States and roughly forty percent of the gross national product (Rosenblatt et al, 1985). The importance of the perpetuation of the family business continues to be a key component in the nation's economic structure.

The family business is also an important part of the nation's social structure. The range and diversity of products facilitated by family businesses contributes to the individual freedom of choice by the public in a democratic society (Alcorn, 1982). Free enterprise results in better

products and lower costs for society. The vision of small, self-sufficient proprietors as thrifty and industrious citizenry is the Jeffersonian tenet of American political and economic democracy. Continuity of the family business supports this free market system because it helps to provide more choices of goods and services to individuals.

STAGES OF BUSINESS GROWTH

It is insightful to examine family-owned businesses in the context of the stages through which an entrepreneurial family entity matures. Ward (1987) classifies family business into three stages of evolution, based on the age of the business (*Figure 1-2*). Berenbeim (1984) also denotes three evolutionary stages of *coalition*, *growth*, and *business institution* in the family business. *Figure 2-1* shows that in each stage, the founder, the family, and the company have different needs and relationships with respect to one another.

In Stage I, or the coalition stage of family business evolution, the founder builds relationships, or coalitions, with a number of diverse supporters in order to establish the business. Often, key supporters may include lawyers,

Stages of Organizational Development			
	<i>I</i> <i>Coalition</i>	<i>II</i> <i>Growth</i>	<i>III</i> <i>Business</i> <i>Institution</i>
<i>Goals</i>	Survival and Flexibility	Cost control and Stability	Market control and organizational efficiency
<i>Focus of Attention</i>	The owner	Team building and market need	External needs - technology, suppliers, substitutes, competitors
<i>Degree of Decentralization</i>	None	Operating decisions decentralized	Some strategic decisions decentralized
<i>What Decisions Made by Owner</i>	All, including technical decisions	Strategic and human relations decisions	Mostly strategic decisions
<i>Organizational Structure and Communications</i>	Informal		Formal
<i>Performance Measures</i>	Sales objectives; volume and orders	Operating objectives: budget vs. past; actual vs. plan	Strategic objectives: investment returns and market share
<i>Rewards</i>	Subjective, individualistic and changing		Objective, formal, and uniform
<i>Control Systems</i>	Cash flow	Budgets and forecasts	Asset utilization, strategic planning, and setting of strategic objectives

Source: John Ward, 1987, pg. 21.

accountants, financiers, marketeers, and the like. In this stage there is no direct link between the family and the business; though the family may assist in support and encouragement of the founder. The goal is survival of the business.

By Stage II or the growth stage, the founder has established the company. The company is in the process of maturing into a larger, more complex organization. In this stage the owner strives for control and stability. With children typically in the 15 to 25 age range, the family has more financial expectations and needs, including comfort and education. The family also may begin to work in the company on an as needed basis. The founder still charts the course for the firm and is an indispensable party to all important decisions.

By the business institution stage, Stage III of the evolutionary cycle, the family company has a clear sense of mission and purpose, and all systems and procedures are usually formalized. The company's character, however, may be stagnant, needing strategic "regeneration" and reinvestment. The owner/manager may begin to concentrate on other, more conservative goals, while the new generation seeks growth and change. Sometimes this lack of a common vision results in conflict between the two generations. Thus family harmony and unity often becomes a goal for the family and founder in this stage.

The stages through which family-owned businesses evolve impose changes on the company, the owner/manager, and the family. Changes may include the company's growth rate, the scope of business activity, the motivations of the owner/manager, the family's financial expectations, and the family's business goals. The importance of the family and the particular subsets which occur when the company, founder and family interact are discussed more fully in Chapter 2.

This section addressed the evolution of the family business over time. The stages described here are important in understanding the context of the managerial succession process. Section two will address succession from a more broadly-defined perspective of the corporate environment.

SECTION TWO

SUCCESSION: THE NON-FAMILY PERSPECTIVE

This section provides a brief overview of succession outside of the family realm. Succession planning is increasing in its importance and priority in the large, corporate setting. Deegan (1986) defines *corporate succession planning* as part of a total system of professional management, to provide an organized approach for the most effective identification and utilization of the organization's management resources.

Furthermore, succession planning includes not only those current positions for which planning must be done, but also those positions which will be needed in the future. These anticipated future positions must be planned as well, and they may become a strategic part in the overall succession plan.

HISTORY AND IMPORTANCE OF CORPORATE SUCCESSION PLANNING

In the past few years, the issue of succession planning has emerged as one of the top new priorities for large companies. What prompted this recent concern in implementing a succession planning process? The process emerged from the late 1960's and early 1970's when innovative organizations, such as Exxon Corporation, Sara Lee Corporation, and the Port Authority of New York, adopted formal succession planning methods that included assessing the performance and potential of a group of talented employees; planning their movement through the organization and establishing detailed development plans. Thus the 1970's brought about widespread acceptance of the notion that companies should define specific executive development plans for insuring the continuity of profitable operation within the firm (Rhodes, 1988). Firms in the 1980's began viewing succession planning as an important element in achieving a competitive advantage by undertaking succession planning as a strategic and tactical process.

Today succession planning in corporate organizations has become a major managerial task within strategic planning processes. Consultants spend thousands of hours identifying and cultivating candidates to succeed key corporate positions within organizations. It has become imperative to recognize how certain important elements of succession planning can be used to facilitate corporate human resource needs (Deegan, 1986). As opposed to family-owned business, the need to fill key positions within the large corporate environment occurs more frequently and diversely. Thus, the continuity of the organization over time requires a succession of persons to fill key positions.

Currently, the level of sophistication in corporate succession planning varies widely; from taking a base approach of simply having an "emergency plan of operation," to implementing a fully-developed process of talent identification, training, and development of key personnel for years ahead in the future.

Exxon Corporation is one such company with an extensive succession planning process; the chief executive has already been identified and planned for, and currently is in training until the year 2010 (McManis and Leibman, 1988, p. 24).

Practitioners contend that the succession plan must be linked strongly to the business plan (McManis and Leibman, 1988;

Rhodes, 1988). As the business environment changes and the company demands different skills and abilities, the succession plan must reflect these changes. The succession plan also must have top management support and involvement to be successful.

By reviewing the literatures, this chapter has provided an overview of the topics of family-owned businesses and succession in the corporate environment. An understanding of these topics provides a basis for examining where these two topics intersect; succession in family-owned businesses.

CHAPTER TWO

SUCCESSION IN FAMILY-OWNED BUSINESSES

Of all the issues that can decide whether a firm will survive from one generation to the next, succession is the most important. This is because the dynamism, energy and vision of the family business leader often has a disproportionate impact on actual results (Magrath, 1988, p. 73).

The last chapter provided a general overview on the subjects of family-owned businesses and succession planning. Based on this overview, this chapter will address more specifically succession within the family business.

DISTINCTIONS FROM CORPORATE SUCCESSION

As the large "baby boom" age cohort matured in the 1980's, the appeal of working in a family business became increasingly popular.

More of today's young people are likely to want active roles in the family firm than in the decades of the 60's and '70s. That is because of desires for flexible working arrangements, growing entrepreneurship and middle manager layoffs across North America (Magrath, 1988, p. 76).

Family businesses are an important part of our economy and society. While most people associate family businesses with small enterprise, they also include a number of large organizations, such as L. L. Bean Company, Campbell's Soup

Company, and the Rooney Family, owner of the Pittsburgh Steelers.

Yet the succession process in the family business is different from that in the corporate environment. There are factors in the family business, such as family bonds and relationships, family reputation, and personal financial risk, which have a stronger influence on the operation of the business than the non-family enterprise. These non-market factors will ultimately affect the business decisions. Subsequently, sometimes decisions made in the family business may not be the best, *market-based* business decisions.

Many influences such as those given above affect the succession process. *The family business succession is most often a non-market based transfer of both wealth and power.* This does not mean that the family ignores market influences in their decision-making process. Rather, business decisions are influenced by the unique aspects of the family.

Even for the happiest of families, succession is tricky. The qualities that make for a successful family--such as treating children equally--often conflict with the qualities of a successful business--such as choosing one of the kids to be the new boss. For the sake of the business and the family, the participants must try to navigate around such shoals (Emshwiller, 1989, p. 1).

This process is further complicated by the interpersonal roles of the family members themselves, that is, the family dynamics.

FAMILY SYSTEMS THEORY

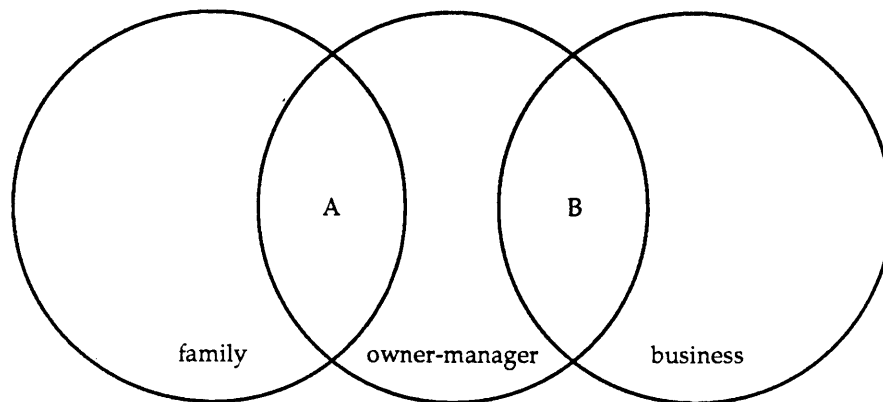
The family business environment is one in which generational change is inevitable; where the transfer of decision-making and power is certain; where one generation succeeds the other with biological inevitability (Churchill and Hatten, 1987). The family business may be seen through a *systems approach*; where the business, the owner/manager, and the family are all three integral parts of a whole environment. Other family business writers also have taken a systems approach to the family and business (Alcorn, 1982; Barnes and Hershon, 1976; Beckhard and Dyer, 1983a and 1983b; Bork, 1986; Danco, 1980; Kepner, 1983; Jonovic, 1982; Rosenblatt et al., 1985; Ward, 1987).

I start by recognizing the existence of three basic components: the firm as an entity with a life of its own, the family as an entity with a life of its own, and the founder--who has a life of his own and who, typically, heads both of the other two systems (Beckhard, 1983, p. 31).

Extensive research has been conducted by family theorists and therapists. In looking at family systems, it is important to distinguish between the family business and those businesses which are owner/managed. The owner/managed business operates in Stage I (Coalition) of the business cycle. Some businesses will continue to operate quite successfully in this stage only. But the duration of this successful business is limited by the eventual incapacity or death of the owner, at which point the business is usually sold. This reality is the basis

for Churchill and Hatten's (1987) idea of the biological inevitability. *Figure 2-1* shows the relationship between the owner, the family, and the business in the owner-managed entity.

Figure 2-1
The Owner-Managed Business



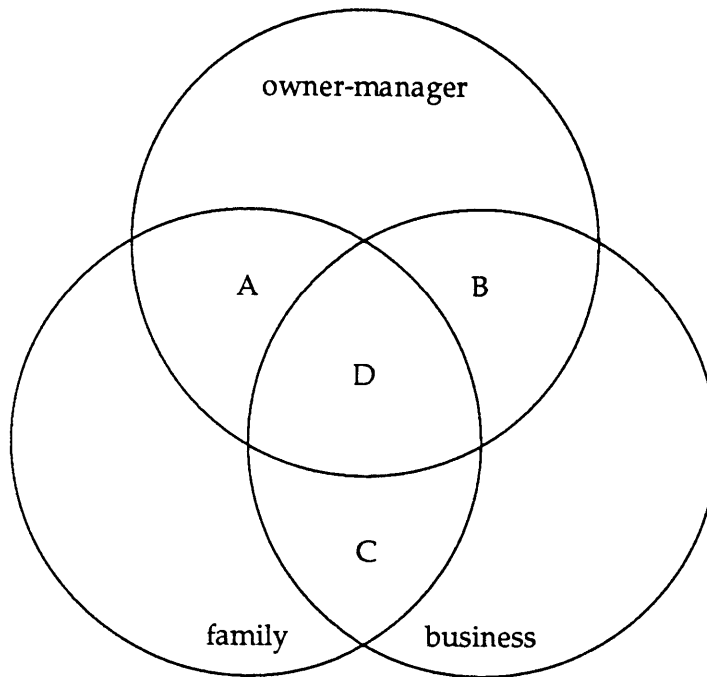
Sector B represents the emotional, physical, and financial involvement of the owner/manager with the firm. In the initial start-up phases of the business, the business and the owner/manager may be one in the same. As the business grows,

the business environment moves more to the right, detaching itself from the total consumption of the owner/manager's time. Carried to the extreme, the business will completely disengage from the owner/manager (or vice versa), as in the case of the company that eventually goes public.

Sector A represents the involvement of the owner/manager with spouse, children, siblings, parents, and the like. This intersection of family with owner will be smaller in the initial cycles, but as the business grows and becomes more stable, the owner may find it less necessary (or may be less willing) to devote an "80-hour work week" to the business. Moving further away from the business environment, the owner may begin to "share" time more proportionally with the realm of the family environment.

The lack of intersection between *A* and *B* represents the fact that the family or family members are not directly involved in the business in any material way. In the true family business there is more interaction among the parties. *Figure 2-2* depicts the true family business, in which the owner/manager, family, and the business are involved.

Figure 2-2
The Family Business



All relationships, including the previously described A and B sectors, are the same, yet now, two additional intersecting areas appear. The first, Sector C, is where the family is involved with the business, with no direct interaction on the part of the owner/manager. For example, to earn extra money, a daughter of the owner-manager may work part-time in the family company while she attends medical school on a full-time basis.

Sector D represents the interaction which is at the core of the family business--direct family involvement both in the activity of the business and with the owner/manager. Here, the family members are participating directly in the operation, control, and direction of the enterprise. For example, upon graduation from college, a son of the owner/manager may join the family company on a full-time basis, with specific responsibilities and job duties of his own.

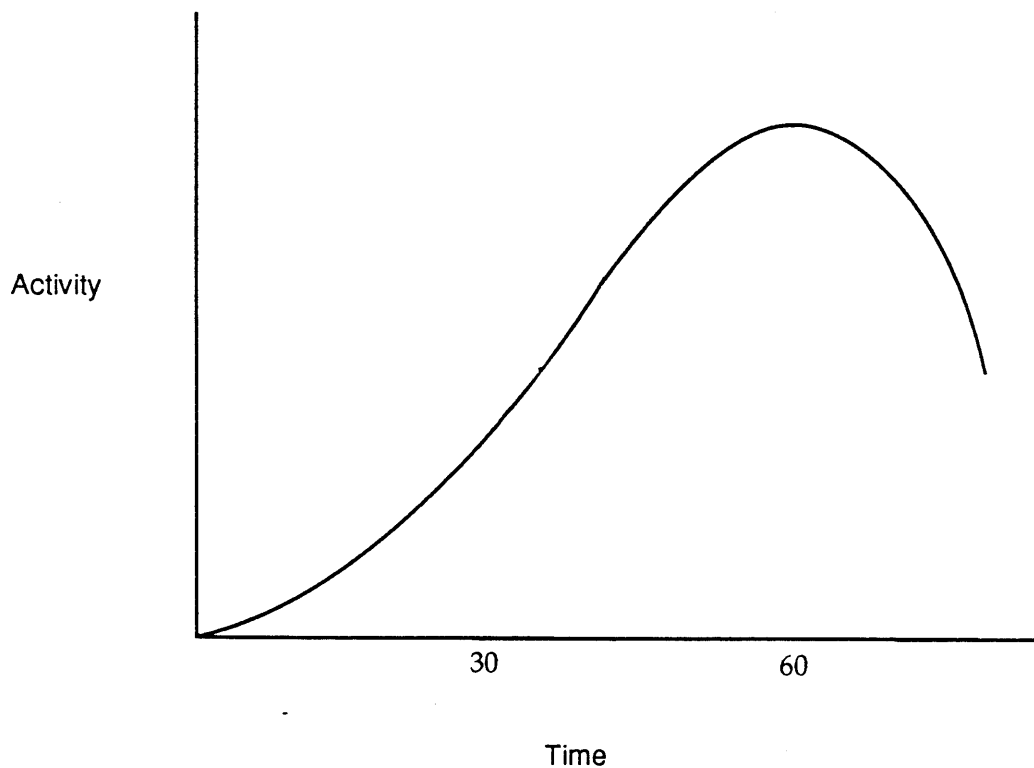
It is important to distinguish the involvement of family members in a business from the non-family members. Family employees have interpersonal emotional relationships which have been formed outside the business. *Upon entry into the business, family members bring with them the relationships they have developed previously in the family. They bring with them the roles, expectations, and obligations of both the business and the family into the business.* For example, a parent's "trust" developed in a family context can lead to a owner/manger being "overconfident" in the performance of the off-spring in a business context. The relationships in one environment cannot help but influence the relationships in the other. These role interrelationships, or *family inmeshment* (Le Van, 1989), are what make family business so unique. The family ties and the biological imperative introduce the possibility of family business succession as an alternative to selling the business. Here, the choice of a successor, his or her training and development, and the transfer of managerial

power is at the core of the family business.

The Biological Life Cycle and Succession: A Four Stage Model

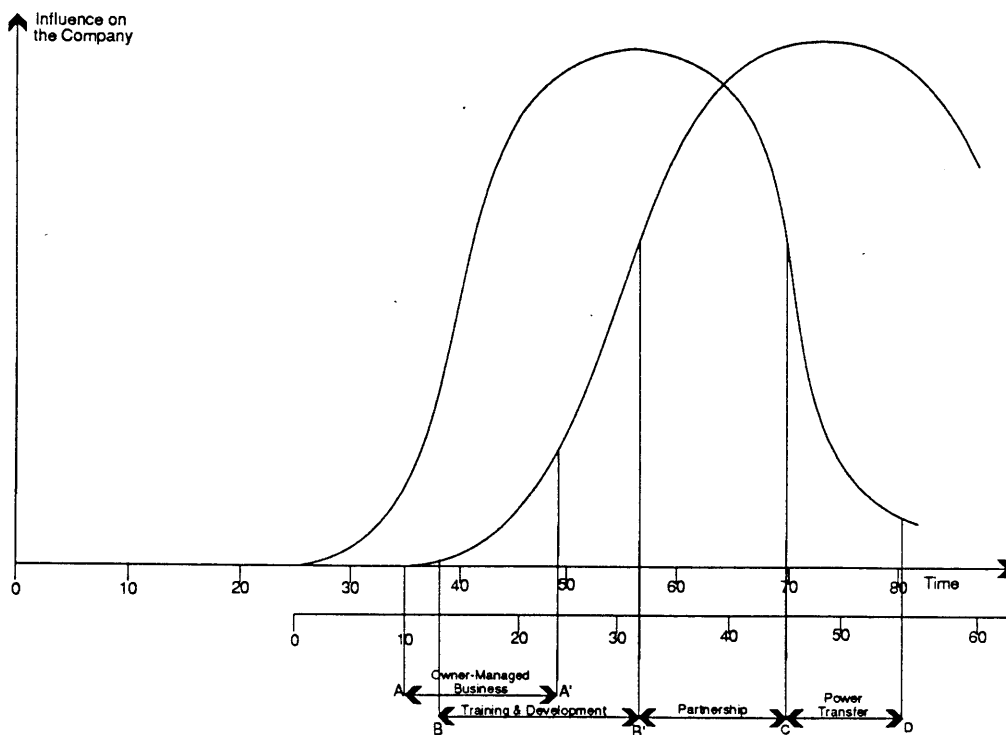
There is an inevitable human life cycle from birth to death (Figure 2-3). Though it may vary in duration, there is normally a period of training and development, followed by a period of high activity, and finally a period of phasing down.

Figure 2-3
The Human Life Cycle



This path can be expressed as the degree of influence an individual has on the direction and operation of the business. When the life cycles of two generations are examined concurrently, as in *Figure 2-4*, a natural periodicity, or phase difference, is evident. This phase difference produces unique stages within the company, which like the seasons of the year, are repeated from generation to generation (Greiner, 1972).

Figure 2-4
Life Cycles of the Generations



Churchill and Hatten, 1987, pg 59.

The phase differences between older and younger generations provide a sound analytical framework for examining the family succession process. The model is a continuum --mapping the changing contributions of family individuals over time.

*Family businesses are unique because they are composed of a flow through time of people....
...who share one of the strongest bonds human beings can have, a family relationship.*

This model offered by Churchill and Hatten (1987) uses the juxtaposition of two generations of family members as a basis for examining the succession process. The model is time-based, in that it measures the succession process over generations. The changing levels of contribution to the firm with respect to the human life cycle reveal four sequential stages of succession:

1. Owner-Managed Business: This is the stage from start-up to the entrance of the first family member. Until that time the enterprise is not yet a family business. Family considerations influence the business but are not a part of it. This stage extends until a family member enters the business on an other than casual basis--in Figure 2-4, from Point A to Point A'.

In most cases, this is the only major asset the new business has: the founder's desire that it exist.
(Danco, 1980, p. 52)

2. Training and Development of the New Generation: In Stage II, from Point B to Point B', the off-spring learns about the business. This learning period may start as informally as around the dining room table in early childhood and through part-time and vacation employment until college. Full-time involvement in the company, Point A', intensifies the development of technical, interpersonal and managerial knowledge, judgement, and skills.

...they (off-spring) start learning the second they

can listen! I've found that children usually have no idea how much they really know about the family business.

Dr. Thomas Davidow
Genus Resources, Inc.
June, 1989

3. Partnership Between the Generations: At the end of the training and development stage (Point B'), the off-spring has acquired sufficient business and managerial competence to have delegated responsibilities and to begin to be involved in policy decisions for at least part of the enterprise. This responsibility grows into a full and shared partnership between the generations on operations, and goal and policy determination--Point C.

In this stage, the parent/supervisor crosses the border where power must be shared--and not all owner/managers excel in this process.

(Churchill and Hatten, 1987, p. 63)

4. Transfer of Power: Finally, in this stage, operating responsibilities, policy making, and goal setting shifts from one generation to the next. It begins in the later stages of "Partnership," Point C, and accelerates as the parent begins the retirement process and reduces active participation in the business. This can occur with or without a formal transfer of ownership (Barnes and Hershon, 1976, p. 105).

The ultimate transfer of power may follow or precede changes in ownership. But the parent's managerial participation is reduced in the business.

(Churchill and Hatten, 1987, p. 60)

These four stages describe the process of transferring management control, a transfer that involves more personal than market conditions. Based on the human life cycle and "value added" to the family firm, this model provides a framework for analyzing the status of the succession process within family firms.

Many family-owned businesses move through this process without formal succession planning. Often, it is only the occurrence of sudden incapacity or death of the owner/manager that forces a family business to acknowledge its current stage in the succession model (Lansberg, 1987). In these cases, the firm and the successor must make an unanticipated leap from one stage to another. The continuation of the firm at that time will depend on the ability to successfully make that leap. For example, if training and development has progressed to a point of developing a basic competence level, then the sudden leap to the power transfer stage, though difficult, may still be possible. In the case of a much younger child or an uninvolved off-spring, who is further "to the left" on the age spectrum and cycle, the leap is not possible, and the business is either sold out of the family or managed by non-family employees on an interim basis until the next generation family member is capable of assuming managerial responsibility.

THE EFFECTIVE SUCCESSION: REFINEMENTS TO THE LIFE CYCLE MODEL

The four stage life-cycle model of succession (*Owner/Manager, Training and Development, Partnership, and Transfer of Power*) can be used as a basic framework for analyzing real estate development firms in field research. Each of the stages may be described further by examining other research findings which the literatures suggest influential in the succession

process. These additional insights help to refine the basic stages of the analytical model.

Stage I: The Owner-Managed Business

In this stage, the new owner-manager is least likely to think about planning for succession. The entrepreneur's chief goal is survival, and without total dedication to this end, thoughts of continuing the business are moot.

Opportunity carries risk, and there are few greater risks someone can face than starting up a business. It's a hope. Security is an unknown word.....this is the "wonder" stage (Danco, 1980, p. 50).

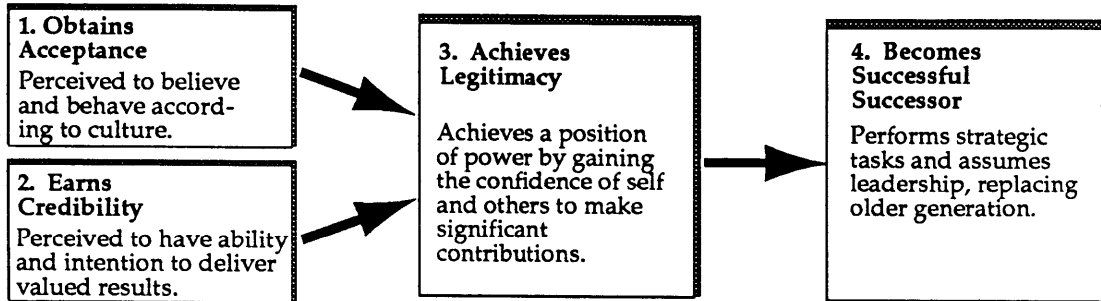
Stage II: Training & Development/Entry Strategies

The literatures suggest that prior to entry into the family business, children should work elsewhere early in their careers (Danco, 1982; Jonovic, 1982; Tagiui and Davis, 1986). It is important for the successor to develop skills and earn credibility outside the family firm. Those who do not have the experience of working outside the firm may harbor resentment and reduced self worth, which may manifest in their late 30's or 40's. Despite this advice, however, studies have shown that 85% of all successors go to work for the family business immediately after graduation from college (Jonovic, 1982). This finding may correlate with the previously mentioned statistic that only three of ten firms survive their founder (Beckhard and Dyer, 1983a).

Tagiuri and Davis (1986) advocate that another reason to delay in entry into the family business is due to the stressful life-cycle period of the owner/manager. If the child is of the age of a typical college graduate, the owner-manager is usually in the early 40's age range. This is the time when many business owners are evaluating and retrenching their life strategies. Upon entering the 50's age range, the owner/manager has typically "weathered" the crisis and is in a better position to teach the successor about the management of the business.

Upon entry into the firm, the off-spring should be treated like any other employee, instead of as "heir to the throne" (Jonovic, 1986). Earning acceptance and credibility among family and non-family employees is crucial to successful integration within the firm; without credibility, the potential successor cannot attain legitimacy (*Figure 2-5*).

Figure 2-5
The Successor's Path to Succession



Barnes and Hershon (1976) discovered that changes in the business strategy itself facilitate succession. When the business strategy takes on a new or altered direction, the entry of the off-spring into the family business can be facilitated by the new opportunity presented. Company growth or transition can influence the succession process.

In most cases, successful successors benefit from direct training and development by the owner/manager. One reason for

the demise of entrepreneurial firms is the inability of owner/managers to transfer their skills, knowledge, and contacts with key customers and suppliers to the next generation.

The failure to teach--or the unwillingness to learn--are two of the most dangerous mistakes made in family businesses (Danco, 1980, p. 113).

Some entrepreneurs may blatantly fail to provide for succession by ignoring the need to choose or train a successor (Schien, 1985), thereby committing "corporeuthanasia"--the purposeful killing of the business (Danco, 1982).

Training is an important part of effective succession. There is debate, however, as to whether mentoring by the parent is an effective tool in career development and training. Mentoring by parents has been discouraged because of the many other roles they already play (Bork, 1986). It has also been highly encouraged as the only way of making sure that the owner's knowledge sets passed on to the successor (Danco, 1982).

Stage III: Partnership between the Generations

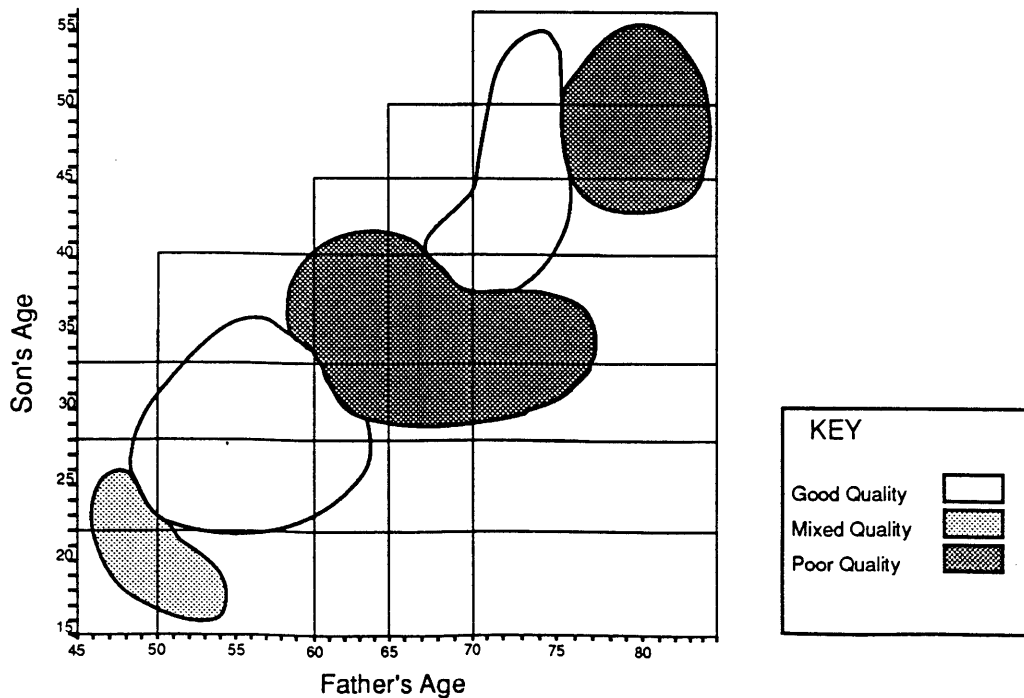
The founding entrepreneur knows every piece of the business...and usually can do everything better than anyone else in the company...naturally they are reluctant at best to give up control of what they have built...many would rather sell the business than be succeeded...the sharing of power is generally a "truce" between the generations!
(Davidow, 1989)

In the partnership stage, the sharing of power will be affected by the attitude of the owner-manager. The business is seen as an extension of the entrepreneur, and as a medium for personal gratification and achievement. Since businesses are extensions of founders, Levinson (1971) suggests that founders are likely to have difficulty delegating authority and often refuse to retire. The Levinson study found that entrepreneurs have a high need for authority and power, and they use their organizations as a primary source for satisfying those power needs. Peay and Dyer (1989) found two types of power orientations among entrepreneurs; social power and personal power. Those motivated by personal power expressed desire for authority and control over others. Those driven by social power have the motive to exercise power for the benefit of others; they are willing and able to help others feel powerful and capable of accomplishing things on their own. Their research identified that those entrepreneurs associated with social power have less difficulty turning over their management roles than those entrepreneurs with high needs for personal power.

Finally, a critical determinant of the succession process in *Stages II, III, and IV* is the quality of the relationship between the founder and the successor. Davis and Tagiuri (1989) examined the relationship between the life cycles of fathers and sons who work together, concluding that the quality of the work relationship varies as a function of their respective life stages (*Figure 2-6*). They have shown that the

father and son's work relationship varies in quality as they mature. Here, the intersection of their developmental paths can have positive or negative effects on the quality of the work relationship, and subsequently on the resolution of the succession process. This research suggests that, based on the ages of the parent and child, there may be optimal time periods in which the process of power transfer may be best achieved.

Figure 2-6
Father/Son Work Relationships



Source: Davis and Tagiuri, 1989, pg. 70.

Stage IV: The Transfer of Power

In the *Transfer of Power Stage*, retirement of the founder occurs most often as a "phasing out of the business." The founder of a firm may decide to retire for personal, financial, or organizational reasons (Berenbeim, 1984).

Much of the literature purports that the succession process is more effective when the founder is interested in other activities or goals which are *outside* the family firm (Beckhard and Lansberg, 1983; Ward, 1987). If the founder sees disengagement from the business not as retirement but as moving on to other objectives, the process of transferring power to the next generation is facilitated.

This chapter has presented a framework for analysis of the succession process based on the life cycles and the contributions of multi-generational family members. The refinements to the model from the literatures provide an overview of the relatively little research that has been empirically conducted on succession in family business. This analytical model now can be applied to examine the succession process in real estate development companies. The next chapter will outline the research methodology and present two case studies of family-owned real estate development companies.

CHAPTER THREE

RESEARCH METHODOLOGY AND CASE STUDIES

The previous chapters have provided a context for studying succession in family-owned business. One of the objectives of this study was to direct particular attention to the real estate development field, and conduct exploratory research that would generate findings of characteristics specific to succession in family-owned, real estate development firms. The research was designed to be exploratory, qualitative, and largely descriptive in nature.

RESEARCH METHODOLOGY

This study focused on real estate development firms in which both the parent and the child were actively involved on a full-time basis, and where the succession process was at an early stage of development. The data presented here illustrates cases where succession is an active and important issue, yet currently unresolved.

Two real estate case studies are presented. Rather than conducting a general survey of a large number of development

firms, I believed it was important to gain an in-depth understanding of the two real estate development companies chosen for study.

To guide the focus of the study, the first task was to designate criteria which would guide the sampling process. Outlining these criteria prior to the data collection process was important for clarifying and bounding the sample. A cross-section of interviews were conducted in both owner/manager and successor generations. Conducting separate, one-on-one interviews not only offered the individuals' perspectives but also allowed for the triangulation of data by assembling an overall view of the organization. A limitation of this approach is the relatively small sample size, and thus the generalizability of the results to all family-owned development companies is questionable and a matter for future study.

The specific criteria for choosing case study firms was as follows:

1. *The company is actively involved in the business of real estate development. Firm may offer other related services such as construction or brokerage, but development is the mainstay of the business. It was desired that firm be large enough in size to have had several major real estate projects completed, and firm is active in at least \$30 million of current development.*
2. *Firm is family-owned and managed. The father is alive and still active on a full-time basis in the firm.*

3. *One or more children of the current owner/manager is involved in the business on a full-time basis.*

Locating the firms was done through personal contacts in the real estate development industry and with the assistance of classmates at the MIT Center for Real Estate Development. To gather a broad perspective of data, both the owner/manager and the child or children were interviewed. Separate sets of interview questions were developed especially for each party (see *Appendix 1* and *Appendix 2* for interview protocols).

In case 1, *Fordham, Levitt, & Lear* is involved in a wide range of project types, including retail and commercial office development. In case 2, *The Johnson Companies* is also diversified, including retail, office, and industrial development. The two firms are comparable in terms of dollar value of development activity, but they operate in different geographic regions.

Each family has three sons and no daughters. The Fordham children are younger in age than those of The Johnson Companies case. Subsequently, all of the three Johnson sons are old enough to be active in the business, whereas only the eldest son, Ian Fordham, currently is active in the Fordham, Levitt, & Lear case.

In the first case, Ben Fordham is a second-generation owner/manager, though his entrepreneurial efforts expanded the firm into the field of real estate development. Ross

Johnson, the current owner/manager in the second case, is also the founder of the firm.

Finally, only immediate family members are active in the Johnson Companies. In the Fordham, Levitt, & Lear case, extended family members (here, two brothers-in-law and one of their sons) are involved in the family business. Upon agreement of the interviewees, this case study only follows the direct line of Fordham family descendants from its founder, Walter Fordham. This focus does not exclude the possibility that future family members may have an active part in the succession process. Its primary intent is to illustrate the relationships between multi-generational family members.

The case studies are presented in order of the families' age range, with the Fordham, Levitt, & Lear study presented first. The actual names of the family businesses have been disguised to maintain anonymity and in the attempt to evoke more honest, reliable data. A site comparison matrix is provided in *Figure 3-1*. This chart summarizes the two case studies and gives a quick reference for comparison of the two family businesses.

Figure 3 -1

Case Study Comparison Matrix

	Case 1	Case 2
Name	Fordham, Levitt, & Lear 	The Johnson Companies 
Location	Midwest region	Mid-Atlantic region
Business Activities	Real Estate Development Brokerage Property Management	Real Estate Development Construction Property Management
Primary Markets	Retail, Office	Office, Retail, Industrial
Volume of Activity	Not available for disclosure	\$45 million
Owner/ Manager	Ben: 51	Ross: 57
Children	Ian: 24 Don: 22 Jack: 14	Bruce: 32 Matt: 30 David: 28

FORDHAM, LEVITT, & LEAR

Background

Throughout the midwest region, Fordham, Levitt, & Lear had built a reputation as one of the region's most respected development companies. Since Walter Fordham founded the family business in 1922, the company enjoyed steady growth, especially in the areas of real estate brokerage and development. Through the late 1940's Fordham Realtors was known primarily as a commercial and investment real estate brokerage company. From 1948 through the 1950's, the firm purchased buildings of various uses for remodeling as investment properties. In the late '50's the company expanded into raw land investment and new office/warehouse development. The high quality of these new developments attracted many national chains as anchor tenants. By 1963 retail development was a major component of the firm's operations.

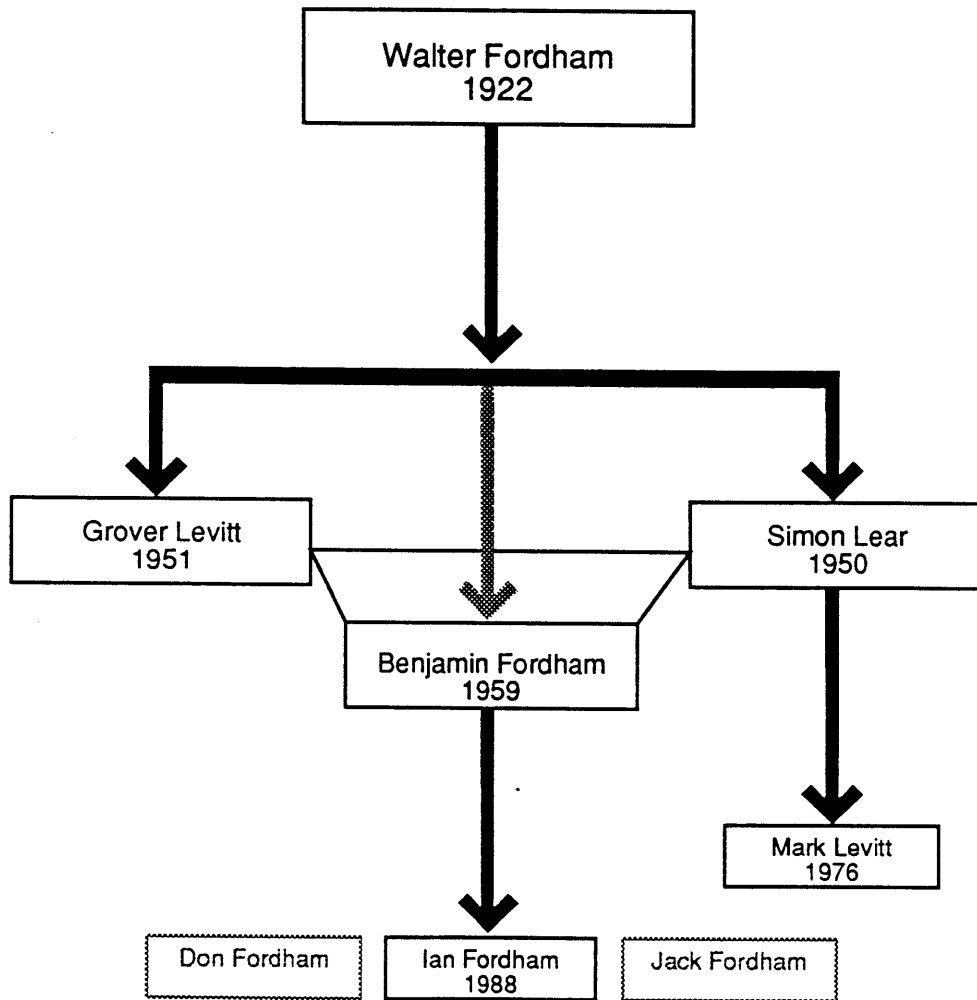
In 1950 and 1951, Fordham's sons-in-law, Simon Lear and Grover Levitt, joined the business. Walter Fordham's unexpected death in 1953 left Levitt and Lear to manage the business until 1959, when the founder's son, Ben, entered the firm. Since then, the three brothers-in-law have operated the company as an equal partnership. The company name was

changed in 1965 from Fordham Realtors to Fordham, Levitt, & Lear. Two of Walter Fordham's grandsons also joined the firm; Mark Levitt in 1976 and Ian Fordham in 1988. *Figure F-1* outlines the family business history.

The company developed several projects of significant size in the midwest and on the east coast. Many of these developments were regional malls, ranging in size from 240,000 square feet to over 1.2 million square feet. Part of the company's success was attributed to its ability to work well with large national retail tenants, such as Dillard's, Sears, J.C. Penney, and Hyper Mart (Wal-Mart). Often the success of an initial phase of a retail center acted as a springboard for the expansion to a to a second or third phase of development.

In the 1980's the firm moved aggressively into the local downtown office market. A 38-story office pavilion was developed which was a mixed-use project including an office tower, a three story retail mall, three renovated historical buildings and a 2,200 car multi-story parking garage, all linked together by pedestrian bridges over existing streets. Other office developments also were undertaken. Based upon the strength of the company's reputation, the developments attracted such desirable tenants as American Hospital Supply and the National Collegiate Athletic Association (NCAA).

Figure F-1
Fordham, Levitt, & Lear:
Family Business History



The stated goal of the family business was to continue to build and develop its long-term real estate interests. The company was careful to retain ownership and management of most every project developed by the firm. By 1989 the firm employed over 58 employees.

Since the company's inception, both the family and the business had grown larger. Ben Fordham, at age 51, thought of himself as being far from retirement age. He had three sons; Ian, age 24; Don, age 22; and Jack, age 14. Ian, His eldest son, had joined the firm on a full-time basis one year ago, and currently, only Ian and Mark Levitt were the only third generation family members involved. He knew other family members would have some interest in the business in the future. With this in mind, Fordham recently had begun to think about the issues of succession and planning for the transfer of the family company's ownership and management.

BENJAMIN FORDHAM

My successors cannot operate like the older generation; the size of the firm and the complexities of the real estate development business transactions, even now, are forcing management to adopt more sophisticated and specialized strategic planning.

Ben Fordham was one of those people who always knew what it was he wanted to do with his life. Though his father died when he was 16, Ben knew that his father had laid the groundwork for a business which had great potential for

growth. After graduating from the University of Pennsylvania, he joined his brothers-in-law in the family business.

He believed it was an important part of his success that he began to learn about the real estate business at an early age.

I remember running the elevators in an office building at lunchtime, and working on different construction jobs....even at a very early age, I went to collect rents with Dad.

Over the past few years, Fordham had worked diligently to expand the number of real estate projects and to increase the firm's profitability. The number of employees also increased, as additional skills and talents were required by the growing number of projects. This rapid growth forced him to address a new concern: the professional management of people as organization assets. To this point, his managerial style had been entrepreneurial in practice--he concentrated his efforts exclusively on projects and the "deals" he was able to structure. Lately, because of the large volume of work, he had begun to delegate more responsibility to others, including to his son, Ian.

Fordham had confidence in Ian's abilities. Although he acknowledged Ian had no outside work experience in real estate firms, in general, Fordham believed there were benefits in working elsewhere before returning to the family business.

I would encourage my sons to work elsewhere for a while.....to learn self reliance. I think that in doing so there are less pressures to perform once back in the family business....also I think you can learn someone else's methods of problem solving--the real mechanics of real estate.

He had encouraged Ian to work outside the family business after graduate school, but Ian returned directly to the business. Nonetheless, Fordham thought the time his son spent in graduate school served as an opportunity to gain outside perspectives and insight into other ways of doing things.

In considering the future management of the company, Fordham knew that the partnership, which made all major business decisions and which owned the company collectively, would have to change to accommodate a new management structure. Some initial discussions and planning had taken place. The partners met and developed company policy for family members to gain ownership of the business. They agreed that a family member (defined as a direct off-spring of a partner) was required to work in the family business for a period of five years before vesting rights to ownership. At that time, the family member would be entitled to some percentage of ownership in the firm. These criteria, however, were not officially implemented.

I know that I have already violated that policy. When Ian became responsible for a major new project, I thought it was only fair to give him a small percentage of the deal.

Fordham also could see potential future problems arising with non-family employees; those who would have the same

responsibilities and perform the same roles as family members, yet not be entitled to participate in project ownership. He thought that the company may have to consider giving these employees minority interests in project partnerships to retain them.

One problem Fordham recognized was the company's tendency to think about business needs strictly on a project-by-project basis. No real planning had taken place for the needs or continuity of the long-term "umbrella organization". Fordham knew that more planning would be necessary in this area for effective management transition.

I feel as though I'm a terrible manager. As developers, we tend to concentrate on the management of projects, as opposed to the management of the business. For the overall organization, it's a lack of pre-planning. We are trying to get better in that area.

In considering retirement, Fordham did not think he would have a problem staying out of the day-to-day activities of the business. He would enjoy spending his time pursuing his interests in cycling and helping community and political organizations.

Overall, Fordham was committed to keeping the organization a family business with an informal, "family-style" organization culture. In terms of future leadership, Fordham believed that eventually one of the children involved in the business would come to the forefront to lead the management. But inherent in the succession process was the delegation of

responsibilities--and for him the hardest part of the process was adjusting to a reduced work load in his day-to-day activities.

The hardest part of the succession process for me is managing the transition from doing all of the work myself to having other people doing work, without turning the business into a bureaucracy.

IAN FORDHAM

Some day, I'll be as smart as my father is.

In 1988, at age 25, Ian Fordham had returned to his hometown and joined the family business. Upon earning a degree in Economics at the University of Pennsylvania, Ian immediately continued on to graduate school at the University of California at Berkley to study City Planning. Though he grew up in a family business, he only seriously contemplated a career in real estate development during his early college years. During his breaks from school, he had the opportunity to work both in an large architectural firm's office and in the local planning department.

From my experience in working in the public sector, I saw how the city's policies could help or hinder--or even destroy--a developers plans. My work experience combined with my masters in city planning, I felt I could relate to people in the planning office--and I as a developer could help give cities the type of project that they wanted.

Even in his early years of college, Ian knew he ultimately would come back to the family business. In his opinion,

experience outside of the family business was important, he thought that his time spent in graduate school served this purpose of gaining insight and expertise outside the family business.

After graduate school, I was ready to get on with what I really wanted to do. I felt that I had something to offer Fordham, Levitt & Lear that they didn't have at the time--an education in planning. So I could have gone elsewhere and just been a number cruncher with no real responsibility, or come back here and be given the responsibility to take projects and do them.

Currently, his responsibilities included assisting in construction and take-out financing for projects, working with planning and zoning officials, and specifically managing a 155,000 square foot office project. Though these responsibilities were important, Ian still believed that he was in a period of "high learning" in his job.

Ian liked the informal management style within the company. With the exception of the three Partners, no one in the firm was assigned any formal titles or was made to adhere to any strict managerial hierarchy. He did acknowledge, however, there was a certain uniqueness to be the "SOB" (Son of the Boss). In general, he found that the support staff were more willing to tell him important things concerning the office.

I guess they know that some day I'll be the one in the position to change things.....or that by telling me, it gets Dad's attention faster....overall I get 'watched' a little more."

But sometimes being the SOB worked to the opposite effect--Ian felt that employees were reluctant to discuss certain issues

openly in front of him.

Ian was pleased that his father gave him enough autonomy to make his own decisions and perform his own job duties without interfering. He had a good work relationship with his father. Though his father was always willing to help or to offer advise, he left Ian alone enough to perform his own responsibilities.

...that's (autonomy) tied to the way I was brought up--my parents let us be on our own enough. I guess at some point, parents realize that the kid has just got to make decisions for himself.

You get to a point when you realize your parents are a little smarter than you gave them credit for--then you start working with them even better.

Ian agreed with his father in that, upon his retirement, his father would have no problem staying out of the day-to-day business activities; although he acknowledged,

I don't think he'll retire until he wants to stay out of the business...he's like me; he loves what he's doing.

Ian, like his father, was proud of the family business. He attributed part of the company's success to the close relationships between the family members. He knew one of the firm's major goals was to remain a 'family business,' although he was not aware of any specific plan of how the company's ownership and management would be transferred. His belief was that the business always would attempt to retain its current structure of "equal family member partners, all working for the common good of the company." With respect to the

non-family employees, Ian perceived no problems in the future.

They (non-family employees) came into the Fordham, Levitt & Lear with their eyes open and they knew the rules of the game when they entered the firm.

Overall, The company's future looked promising, but Ian knew that his family's business would be faced with some complicated issues regarding succession in the future.

I guess the biggest question is how do you go from being three guys in a partnership to a larger group....hopefully all still having the same "thirst" to work as hard as ever?

THE JOHNSON COMPANIES

Background

The Johnson Companies, headquartered in the Mid-Atlantic region, was structured as an umbrella organization to provide services in the areas of real estate development and construction. The firm also handled in-house sales, leasing, and property management of speculative and joint venture properties.

With net holdings of approximately \$50 million, the activities within the firm were extremely diverse. The firm had developed a diversified portfolio of properties including office parks, financial institutions, medical offices and clinics, industrial facilities, research and development complexes, office warehouse and distribution space, shopping centers, and condominiums. Priding itself that they did not develop in a singular, "boiler-plate" style, The Johnson Companies tried to fit the function of each particular property with an appropriate design solution. Because of this emphasis on flexibility, Johnson established a reputation for its ability to develop site plans which increased the probability of community acceptance, therefore speeding the approval process and the feasibility of projects.

The family company had been in business for 27 years, and was founded in 1960 by B. Ross Johnson, Sr., as a residential construction company. The company experienced good growth through the 1960's, and until the recession of 1974 when residential development came to a standstill. At this point Johnson successfully turned to retail and commercial construction. Through through the late 1970's and the 1980's, the company rapidly expanded their market share in several areas of development and construction.

The company grew to over 70 employees, which included Johnson's three sons, Bruce, 32; Matt, 30; and David, 28. Ross Johnson, at age 58, acted as the Chief Operating Officer for the company--overseeing and working with the various divisions. Each of the sons held different levels of responsibility.

Ross Johnson had done some thinking about the issue of succession and succession planning. He had read a book family business succession, and he bought a copy for each one of his three sons to read. Johnson, Sr., thought that while the company had no formal written plan of succession, everyone generally was aware of the future course of the company's management.

ROSS B. JOHNSON, SR.

When the boys were teenagers I gave them a set of house plans on their own and told them ok, you build a house on your own. I think they almost killed each other in the process, but the house got built. And it's still standing. But, you know, I never told the people who built their house.

Johnson, Sr. thought of his whole company as family. At age 58, he was pleased with the growth that the company had experienced over the last few years. He was proud that his three sons were involved in the business. Although he was careful not to force his sons to join him in the business, he was pleased when each had decided to return.

Until two years ago, the company facilities were all under one roof. When continued growth began to crowd everyone, the firm's development and property management divisions along with Johnson himself moved down the street to additional facilities. At that same time, however, Johnson also felt that some degree of autonomy had become increasingly necessary for each son to be successful.

This was a good move in terms of training for succession too. Everyone and all functions were just too much intermeshed. The (job) roles were not clearly defined. I felt that I was just too accessible to answer every question.

He also saw the separation of company divisions as an opportunity to give his son Bruce more decision-making authority. Bruce had been named the president of the

construction division in 1986. When the company separated its facilities, Ross was removed from the construction division, forcing more people to take their day-to-day concerns and questions to Bruce.

While all three sons began learning about the business at a very early age, only Bruce joined the firm immediately after graduating from college. Johnson, Sr. did not believe in favoritism and made a concentrated effort to treat all of his sons equally. He acknowledged the fact, though, that based on age, the older son begins to learn about the business first. And though children matured at different times and at different rates, the smallest difference in age naturally was always between the oldest child and the parent.

The younger children are less likely to speak the same language as the parent. Its a matter of maturity.

In the future, Johnson, Sr. believed that Bruce would have to make a choice whether he wanted to preside over the construction division or the development division of the company. If he chose to concentrate his efforts on the development division, then the position at the top of the construction division would have to be filled, either by promoting from within or by hiring outside expertise.

Johnson, Sr. enjoyed many pastimes, such as sailing and fishing, and he believed that he would have no problem occupying his free time upon his departure from the company. He thought it would be some time, however, before he lessened

his involvement in the business.

No one can perform the roles of the Owner/Manager. The contacts and deals that I come across only come to me through a pretty established network of contacts. So, it just will take time for the children to build that credibility.....but it is happening now.

He felt that the hardest part of the succession process was that the owner/manager had to force himself to relinquish control over the business.

Letting go, or loosening the reins is tough, but then you have to keep your mouth shut. They (the sons) aren't going to do things exactly how you would have done them. But they must find that out for themselves.

In the training and development of his sons, Johnson, Sr. felt fairly confident in the strength of their collective abilities, but he acknowledged that experience outside the family-owned business was valuable.

If I had an opportunity to redo it, I would not have allowed the boys to come into the business right out of school. That would have been very tough to say to them.....but it would have been good for them to have seen more how other companies operate.

Overall, Johnson, Sr. thought that the companies succession plan was in pretty good shape. Should a crisis situation occur, he felt that the firm could manage without his leadership.

There would be a scramble at first, but eventually the responsibilities would be divided up. Probably Bruce, the attorney, and the accountant (all on the Board of Directors) would lead this process.

We have enough projects on the drawing board right now that should something unfortunate happen to me,

the company could roll on for quite sometime without ever seeking anything else.

R. BRUCE JOHNSON, JR.

In 1986, Bruce, the eldest son was made President of the construction arm of Johnson Properties. Bruce began working for his father around the age of 12, and he worked with carpentry framing crews in his teen years.

Many of the superintendents took the time to not only tell me what to do, but really explain various construction methods. I felt like I learned the trade and skills from these people out in the field.

He attended Alburn University, where he studied Building Science. Upon graduation at age 22, he returned to the family business, where he went into the construction division. He was named president in 1986. The construction division experienced rapid growth from 1984 to 1989. While the division acted as general contractor for the projects generated by in-house development, over 60% of the total work was generated by outside contracts from other firms in 1989.

Many people who know us as a developer are surprised to find out that we can work strictly as a contractor, when in fact, that's how our company started out. On the flip side of the coin, the people who knew us first as a construction company are equally surprised at our ability to provide turn-key land acquisition, development, leasing, and property management services.

Upon joining the firm out of college, Bruce began to implement ideas to increase the company's efficiency, such as a

computerized accounting system.

Though I came into the construction division, I really came into a multi-role position to help the company as a whole.

Bruce was pleased with the direction that the company had gone since he joined the firm. He respected his father's hard work to build the firm to its current position. He believed that working in a family firm was significantly different than working in a non-family firm.

In a family business, the Owner/Manager tends to expect 110% from family members, whereas maybe only 100% from regular employees. Family members are expected to set examples....when they don't live up to a certain level of behavior or performance.....that's hard. Its worse when sometimes other employees are more capable than the family members.

Bruce believed that each of the three brothers had found a place in the family business--his brother David in construction management and Matt in sales and leasing. He admitted, however, that the owner/manager sometimes had to manufacture "voids" in the organization to accommodate family members interests and talents.

This is where the business gets structured around the family members' needs, and not necessarily the business needs.

In considering the company's strategic planning, Bruce thought that there was a long-term plan, though it was unwritten and was never openly discussed. He thought the company simply focused on business objectives in light of the family

objectives.

With respect to the future, Bruce felt responsible for leading the company on to further profitable ventures. He believed each of his brothers would have to decide exactly what each wanted out of the company. Then the company's strategic direction and job responsibilities could be established.

There is the fact that they (his brothers) could carry some resentment for not being the oldest. It was very low-key when I was made president of the construction division; I think that not emphasizing title is a way not to offend siblings.....but the key, rather, is to recognize and satisfy the needs of each person.

Bruce thought it would be difficult for his father to disengage himself from the business, in fact, he thought his father would never fully retire. He saw his father as having a very "personal orientation" towards the business, and the biggest problem in the succession process would be his father's reluctance to "let go" of all he had built.

In particular, he thought that the succession process in the real estate development industry was more difficult than in most other fields for two reasons. First, the demand for real estate assets was more volatile than in other industries--the market was quickly responsive to macro-economic factors. Secondly, because real estate development was more a service industry as opposed to a manufacturing one, greater emphasis was placed on one's personal capabilities in dealing with people.

My father will always be interested in the business. This sounds morbid, but I bet my father would love to kill himself and then come back in six months, just to see what the hell happened!

MATT JOHNSON

In 1987, Matt Johnson joined the family business as Vice President of the sales, leasing and property management division of Johnson Properties. He, like his brothers, began working with construction crews in his early teens, but unlike his two brothers, Matt left home to pursue a degree in Marine Science in Florida. He then worked for approximately 2 1/2 years for a firm in Virginia Beach before returning to the family business.

In only working for the family business, you get hung in a track. The only view you see is that of your father.

Matt joined the family business in 1987. He he agreed with his brothers that in the future, it would be very difficult for his father to retire and to stay away from the business affairs.

He's something of a workaholic--if he tells you otherwise, he's wrong.

On a day-to-day basis, there was not much interaction between family members. In general, Matt believed that he and his two brothers worked well together, even if they often "went head-to-head" on some decisions. He admitted, however, that

the relatively little age difference between brothers sometimes magnified the competition between the brothers.

Sometimes my brother tends to make a mountain out of a mole hill, and he's less willing to admit to a mistake. I'm more easy going than that. But (in the family company) the birth hierarchy does make a difference.

Matt believed the evolution of the company's structure was partially attributable to his two brothers' varied interests and ages. Each brother had found a spot. He had concerns, though, about what the company would do when his father did leave the business in the future.

He's going to be a tough act to follow. Lots of developments have gotten through in the past just on his name.

He saw his father as the "conceptual leader" in the company--the source of ideas for new real estate ventures. Matt believed this could be a problem in the future; Bruce and David worked in the construction division, and served more to implement his father's conceptual ideas.

Bruce doesn't go out after the work, but he is the implementer--the number cruncher for the idea--he gets the idea done.

Matt did not see a succession process unfolding; his father would still be active in the business for the foreseeable future. He did think that the precedence of first birth rite drove the succession process.

Bruce is President of the construction company, and I guess he would be the one to fill the shoes of my father, but I think things would change a little bit.

I think the Executive Board would make the major decisions.

One of the main reasons that Matt believed the firm had enjoyed a high level of success was the ability to pool many different talents. Though he thought that the family relationships sometimes hindered major business dealings, the advantages still outweighed the problems.

What's here today has been built over time. As much as you go head-to-head with one another, you're still family--there's a level of confidence here that you would not have somewhere else.

DAVID JOHNSON

At 28, David Johnson managed several construction crews in the construction division of The Johnson Companies. He, like his two older brothers, started "learning the business" at an early age by working on residential framing crews. After going to college, he worked for another construction company for 1 1/2 years. He then returned to the family business in 1988 as a Construction Manager.

I never felt pressure (to return to the family business)....I just enjoyed the field and it made sense to come back because that's where I had the most experience.

He believed the company underwent a real change in the mid eighties because all three brothers joined the firm within such a relatively short time period.

We were suddenly responsible for "feeding" four, not just one.

Though David had only been with the family business a short time, he thought his relationship with his father was better than ever. He attributed this partly to the physical segregation of the company's divisions back in 1987, and to the autonomy given to each brother by his father.

Sometimes I'll go weeks without seeing my father. We're all so busy keeping things going... ..it's kind of funny...we'll pass each other and wave on the road sometimes.

With regard to succession and succession planning, David, like his brothers, felt it would be extremely difficult for his father to really stay out of the business. He foresaw the company's construction division still to be led by Bruce; Matt to stay in property management, and himself to remain in construction management. The major decisions of the development company would be made as a team effort between the three brothers.

We'll split the responsibility into thirds. Bruce will probably led the process.....he's more well-versed in the business than Matt or me.

Overall, David foresaw no major problems upon his father's succession, unless the company decided to take on much new development after his father retired. But in his view, the development arm would "run its own show."

Summary

All three sons acknowledged that their father still gets too involved in the day-to-day, detailed decisions.

Its very hard to keep him out of day-to-day affairs. He still wants to get involved in decisions and jobs that he has no business messing around in. We've tried to stress the importance of going through us--through the chain of command... ..just as much for our credibility among the other employees than for his own good!

None of the brothers could foresee their father's departure from the firm in the near future. Yet, all of the brothers believed it was important to continue their successful family business in the future.

CHAPTER FOUR

ANALYSIS OF THE CASE STUDIES

*Everything cometh to him who waiteth,
If while he waiteth he worketh like hell.
(Danco, 1980, p. 7)*

*Fortunately, my father died one year after I
joined the firm.
(Anonymous second-generation manager)*

*He was the lucky sperm.
(Anonymous owner/manager, on his choice
of the eldest child as successor)*

Introduction

The last chapter presented two cases studies in the field of real estate development. These cases studies will be analyzed using the four stage life cycle model presented in Chapter Two. After examining the cases in each of the four stages of the model (*Owner/Manager, Training and Development, Partnership, and Transfer of Power*), some of the factors which influence the probability of effective succession will be identified and then measured according to responses given in the case studies.

Three Approaches to the Succession Process

Before examining the cases in light of the life cycle model, insight can be gained by briefly discussing three types of

approaches that organizations may apply to the succession process. The succession planning process may be *planned, accidental, or evolutionary.*

The *planned approach* is *proactive*; it has been developed before entering the process. Planned approaches have well-defined (usually written) plans which have been crafted in advance. In contrast, the *accidental approach* has no set plan. It is *reactionary*, in that it usually is shaped by only what external circumstances demand at the time. Finally, an *evolving process* has no defined course of action, but future plans are *shaped by past experiences and present circumstances.* In this approach, plans will evolve with time, and they may continuously change to accommodate new environmental influences.

In the case studies presented, clearly neither company had created a definite plan for its succession process. Nor were they ignoring the succession process by just "accidentally" moving through each stage. *In both cases, the companies' succession planning occurred as an evolving process.* As changes occurred in the company's environment, such as the entry of Ian Fordham or Ross Johnson's sharing of power with Bruce in the construction division, the approach to succession evolved to accommodate the new influence.

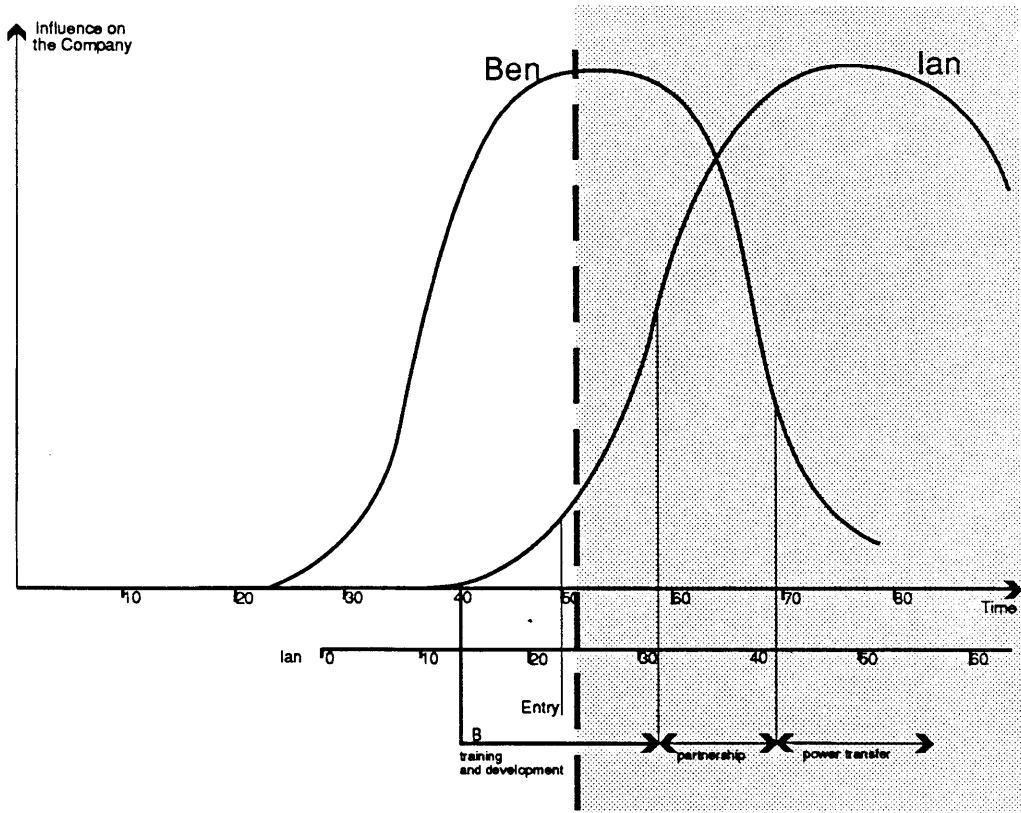
Where Were Each of the Cases on the Life Cycle Model?

The life cycle model contains four component stages: *Owner/Manager, Training and Development, Partnership between the Generations, and Transfer of Power*. The succession model is time-based, i.e., it represents a process which occurs over time. The cases presented in Chapter Three falls on the model's horizontal time line--that is, each is in some stage of succession.

The Johnson Companies and Fordham, Levitt, & Lear are at different points on the model's time line. *Figure 4-1* integrates the generations of the Fordham family with the life cycle model. The dashed line indicates the current position of both Ben and Ian in the succession cycle. We can see that Ian, at age 24, is the first of the Fordham children to join the family business (*Entry*). The graph shows Ian to be in the *Training and Development Stage (II)*. No other Fordham children have joined the firm at this point. Currently, Ben's influence on the company is at a high level, but Ian's influence is increasing as he moves through the *Training and Development Stage*.

The shaded region on the graph indicates the Fordhams' future progression through the life cycle stages. The duration of the future stages of *Partnership* and *Transfer of Power* are only estimates based on the original model and are shown for illustrative purposes only.

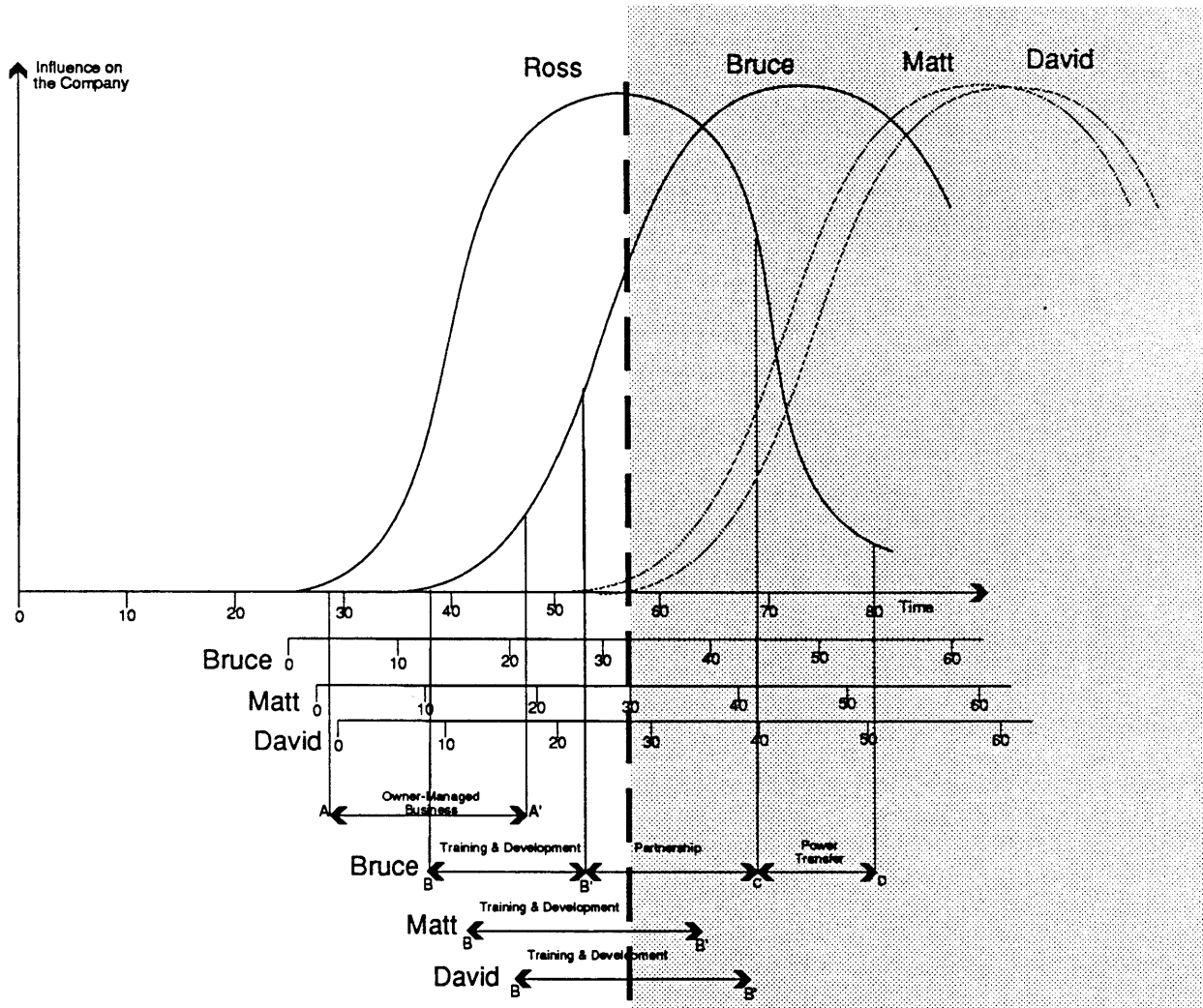
Figure 4-1
 Fordham Life Cycle Model



current position
 Ben Fordham: 51
 Ian Fordham: 24

The generations of the Johnson family are integrated with the life cycle model in *Figure 4-2*. In the Johnson case, the family is approximately ten years older than the Fordham family. Because Ross Johnson is both owner/manager and founder, the *Owner-Managed Business Stage (I)* is shown at the beginning of the life cycle (*Point A to Point A'*). The graph also shows that Bruce, Matt and David Johnson are active in the business on a full-time basis. Due to their delayed entry into the firm, the curves of the younger two brothers have a different cycle phase than Bruce's curve. The age time lines of each of the sons are shown skewed to the right relative to their age differences. The dashed line indicates the current position of all family members in the cycle. Bruce, at age 32, is well into the *Partnership Stage (III)*. Matt and David, are still in the *Training and Development Stage (II)*. Because of the two younger brother's differences in age and entry times, the *Training and Development Stages* also are shown skewed to the right. Again, the shaded region depicts the future progression through the life cycle stages, and the duration of future stages is hypothetical. While Ross Johnson has equally distributed the legal ownership of the company, the model suggests that Bruce would emerge as managerial leader of the company upon his father's disengagement. The hypothesis that Bruce would be first in line to lead the firm is confirmed by the comments of the two younger brothers in the Johnson case study.

Figure 4-2
Johnson Life Cycle Model



current position:
 Ross Johnson: 57
 Bruce Johnson: 32
 Matt Johnson: 30
 David Johnson: 28

Figure 4-1 and Figure 4-2 have shown each family's current position on the life cycle model. Each stage of the model represents an important part of the succession process. The different positions of the two families on the model can be compared and contrasted by discussing each stage of the succession process.

STAGE I: The Owner-Managed Business

Starting up versus handing off?

The Johnson Companies and Fordham, Levitt, & Lear have successfully navigated through the coalition or *Owner-Managed stage (Stage I--see Appendix A-3)* in the business growth cycle. The initial idea of pursuing real estate interests weathered this "survival" stage. A major difference in the two firms, however, is that Ross Johnson is a first-generation owner/manager whereas Ben Fordham is a second-generation owner/manager. Johnson started his business in 1960 as a construction firm, and the real estate development business resulted from the company's growth. Ben Fordham, on the other hand, returned to join his brothers-in-law and to help expand the brokerage business to include real estate development. For Fordham, there was no "wonder stage" as Danco (1980) describes. His father's death in 1953 left the company's management to other family members until his return from college. This type of entry to the

business is a more secure position than Johnson's position of company founder. In Fordham's position, there was much less personal and financial risk at stake to be in a family business.

An advantage of Fordham's position, however, is that he has already experienced the Partnership and (to some extent) the Transfer of Power Stages in working with his older brothers-in-law. *This may mean that the succession process involving Fordham and the next generation will be facilitated because Fordham, himself, already has some familiarity with these stages.* Fordham has experienced Stages II, III, and IV (Training & Development, Partnership, and Transfer of Power), whereas Johnson has experienced Stages I, II, and just recently III (Owner/Manager, Training & Development, and Partnership). *Moreover, Johnson may have a more difficult time in the succession process, because he may be less inclined to dissociate from business due to the personal and financial risk he assumed in Stage I (Owner/Manager).*

It is interesting to note here that in both companies, the firms' development interests grew out of the context of another related real estate business, construction and brokerage being the two most common fields. The founder's original idea was not specifically real estate development. Clearly, the lure of increased profitability through development ventures was recognized and aggressively sought after by both Johnson and Fordham. The ability to exploit

unrecognized opportunity is a characteristic of the successful entrepreneur. As the literatures suggest, the owner/managers do not concern themselves with succession issues in this stage.

STAGE II: Training and Development of the New Generation

Osmosis and accidental learning?

The entry of the first son in the case studies marked the end of the first stage of succession (*Point A'*). Both Bruce Johnson and Ian Fordham agreed that their learning about the business began at a young age--sometime in their early teens. This finding agrees with the literatures; successors' education in the business begins informally at an early age. Furthermore, the results are consistent with the literatures in that learning is enhanced by part-time and vacation employment in the business. At this early age, the successor is probably not aware of exactly what or how much learning is taking place. They learn just by being around the day-to-day activity of the business. The Johnson sons benefited from their experience in working on framing crews. They now apply their experience to become more knowledgeable construction managers. Ian Fordham cited that as a teenager, he also "picked up on things" when he was on job sites. Later, because he worked in the City Planning office, he learned what types of development a city may desire to attract.

Bruce and Ian agreed that while their early jobs were not glamorous (i.e., cleaning out houses under construction), more information was absorbed and more learning took place than they realized at the time. *Even if learning takes place by "accident," it is an important part of the succession process because it increases the successor's knowledge of and competency in the industry.*

In addition, the sons in both families have more formal education specifically tailored to real estate development than that their fathers. Bruce Johnson's degree in building science and Ian Fordham's master degree in City Planning give both sons increased technical knowledge about the real estate industry. Again, this formal training increases their level of competence. *And presumably, whether through "hands-on" training or formal education, increasing the successor's competency will increase the fathers' trust in their abilities to share job responsibilities.* The owner/manager's trust to delegate responsibility facilitates the "sharing of power" in *Partnership (Stage III)*.

Returning to the life cycle model in *Figures 4-1* and *4-2*, *Point B'* represents the start of the successor's full-time employment in the family business. Doug Johnson, Paul Fordham, and their sons agreed that working for a company outside the family business was important in establishing credibility and gaining exposure to "other ways of doing things." This response is consistent with the literatures and

the consultants findings.

Business experience outside of the family firm is extremely important. The optimal time period is three to five years. Outside training not only broadens their perspective, it offers heirs an external reality check by which to make better decisions in their family business-- reality-based decision-making from knowing the industry standards.

Davidow, Consultant, 1989

I recommend five years and two promotions outside of the family business....in some related industry.

*Barbara Hollander, Consultant
Hollander & Associates
July, 1989*

The responses in the case studies indicate that mentoring was an important training method for the successors. All children surveyed indicated that though they might not agree with every philosophy or decision of their parent, they had great respect for the accomplishment of growing the business and for their fathers' knowledge and expertise in the development field. The Johnson sons all admired the business their father had built. Ian Fordham wanted to be as "smart" as his father one day.

Finally, during the *Training and Development* stage, the Johnson sons indicated that the structure of their company changed as each son entered the family business. Matt Johnson helped his father develop a property management division in the company. His brother David filled a new construction supervisor role. Bruce Johnson stated that the owner/manager sometimes had to manufacture "voids" in the

organization to accommodate new family members and their interests and skills. Consultants to family businesses agree;

A company may have three divisions because the founder had to find something for each of his three children to do. (Lansberg, 1987, p. 22).

That is not to say that each child does not make valuable contributions to the family business. In both the Johnson and Fordham family business, each of the sons involved seem to have different, yet important, contributing roles. But this finding among family businesses may be especially useful in certain highly divisionalized industries, such as real estate development. *The structure of highly divisionalized organizations can provide opportunities for family members to use their different skills and interests for the company's benefit, while at the same time, offer autonomy within the workplace. As Bruce Johnson put it, everyone can find "a spot."*

Real Estate does offer more opportunity to family members to do their own thing within the company...the idea of "intrapreneurship". That way, too, the kids can get away from each other.

*Gerald Le Van, Consultant
Family Business Foundation
July, 1989*

STAGE III: Partnership between the Generations

A golden egg or a dangling carrot?

Because of the ten year age difference between the two families, only the oldest son of the two families, Bruce Johnson, has progressed the *Partnership Stage*. Figure 4-2 shows the Fordham family to be in *Stage II (Training & Development)*. The maturity of the Johnson family moves their current position further to the right of the Fordham's position in Figure 4-1, yet still well within the *Stage III (Partnership)* boundaries.¹

The problems cited by the Johnsons in *Stage III* include interaction with other siblings and father's intrusion into their designated area of responsibilities. Though infrequent, Matt Johnson admitted that the family sometimes "goes head-to-head" on certain business issues. In this *Partnership* stage the sharing of decision-making power between the owner/manager and the successors is essential to make the "partnership" work.

¹It is important to note here that while the boundaries of the *Stage II Training and Development* appear to end at point B' on the graph, learning will continue far beyond this point. For purposes of this study the *Training and Development* period will be defined as a more thorough and intense period of learning the activities of the family business and the specifics of the entry job responsibilities.

Often, the "sharing of power" is generally a truce between generations! (Davidow, 1989).

The Fordham family has not reached this partnership stage. Even in the Johnson family, the major development decisions are still made by board of directors, which is chaired by Ross Johnson himself. All Johnson family members, however, said that Ross Johnson has shared some important decision-making power in the construction division with Bruce.

The effects of organizational and environmental factors also have influenced the power sharing. In light of the rapid growth of the construction division, Bruce Johnson's implementation of computerized accounting systems was of great benefit. The increasing number of completed buildings held for investment facilitated the need for Neil Johnson's position in the property management division. The reason that Ian Fordham so quickly assumed key responsibilities is due in part to the company's rapid growth and profitability. Not only did Ian have his specialized skills to offer to the firm, but the firm needed his generalist skills to address the larger and more complex projects being undertaken. These findings also agree with the literatures; *unstable growth (very rapid in these cases) in a company can facilitate the succession process because the owner/manager may be more willing to "share" responsibility due to the increasing amount of work to be done.*

STAGE IV: Transfer of Power

Passing the torch without lighting a fire?

The transfer of power from parent to offspring can be sudden and unexpected, gradual and planned for, or somewhere in between (see Appendix A-4 for Reasons for Passing/Entering the Family Business). Neither case study has reached the stage in which the owner/manager moved out of the day-to-day business activities. The model would suggest, however, that the transfer probably will occur first in the Johnson family. The *biological inevitability* discussed in Chapter Two suggests that, barring unforeseen circumstances, the Johnson family will reach Stage IV first, because the family is approximately ten years older than the Fordham family.

When asked whether Doug Johnson would be able to stay out of the day-to-day business activities upon leaving the firm, the Johnson sons' responses conflicted with the opinion of their father. Doug Johnson believed he would pursue outside interests and hobbies to occupy his time. But all three of his sons thought that he would have difficulty staying away from the company. As mentioned in discussing the owner/manager stage, the fact that Johnson is the founder of the business and assumed the risk of starting the company may cause him to be more reluctant to stay away than Paul Fordham.

In the Fordham family, both Paul his son Ian thought that upon retirement, Paul would be able to disengage himself from the business and to concentrate on other activities. The results of this stage cannot yet be analyzed. However, literatures and consultants agree that *the owner/manager with a healthy interest in outside activities, the ability to dissociate from the firm, and the belief that disengagement opens new opportunities will move more easily through Stage IV-Transfer of Power than the owner/manager without these qualities.* At this point, the case studies indicate that Ben Fordham may have more of these qualities than Ross Johnson.

All of the sons in the case studies acknowledged that the advantages of being a "SOB" (Son of Boss) outweighed the disadvantages. This opinion was based on how they were received and treated within the organizational culture as the "next generation" of the family business. Here, the literatures concur that *an accepting organizational culture can be a positive factor in the stages of the succession process.* As illustrated in *Figure 2-5*, earning credibility in the firm leads to legitimacy and acceptance.

A Force Field Analysis of Succession Influences

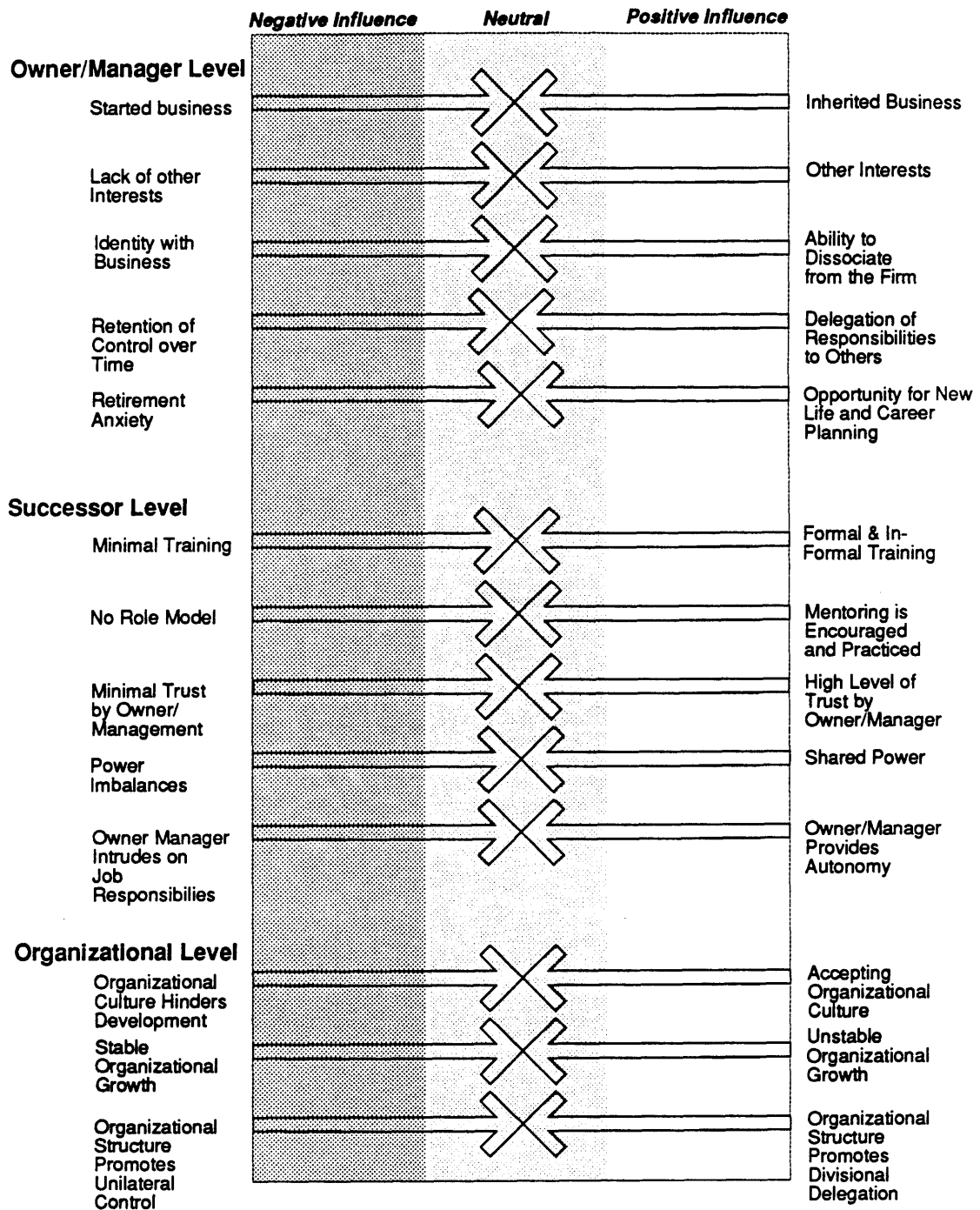
What factors lead to the probability of success?

In the analysis of the cases, certain factors or conditions

within each stage were shown to be important to the probability of success of the succession process. While many family businesses pass through the four stages of the model, they still fail because the succession process was not effective.

Based on the literatures' refinements to the model and the consultants' experiences in advising family businesses, the influences on succession planning can be addressed. Handler and Kram (1988) offer a basic list of these factors, or "forces" which influence the organization's willingness to plan for succession (*Figure 4-3*). These forces stem from four different levels; the owner/manager, the successor, and the organization. This type of analysis is called *force field analysis*, and its premise is that the influential forces are in tension with one another. As the influence of

Figure 4 - 3
Force Field Analysis



Adapted from: Handler & Kram (1988), p. 375.

one force is strengthened, it lowers the influence of its opposing force. If viewed strictly in this manner, it appears that the forces play an "zero sum game;" one's loss is the other's gain.

In looking at the force field in *Figure 4-3*, the first group of influences is categorized on the Owner/manager Level. In the discussion of Stage I (*Owner-Managed Business*) of the life cycle, the influence of the personal risk of starting the business (versus inheritance) was given. The other four factors in the owner/manager category (other interests, ability to dissociate from the firm, delegation of responsibilities and opportunities for new life planning) were addressed in the discussion of *Stage IV (Transfer of Power)* of the model.

On the Successor Level, the training and development which occurs in *Stage II* of the life cycle model was shown to affect the competency of the successor. Moreover, increased competency led to the development of trust by the owner/manager. In both of the cases, mentoring was also an factor influencing the development of the successor.

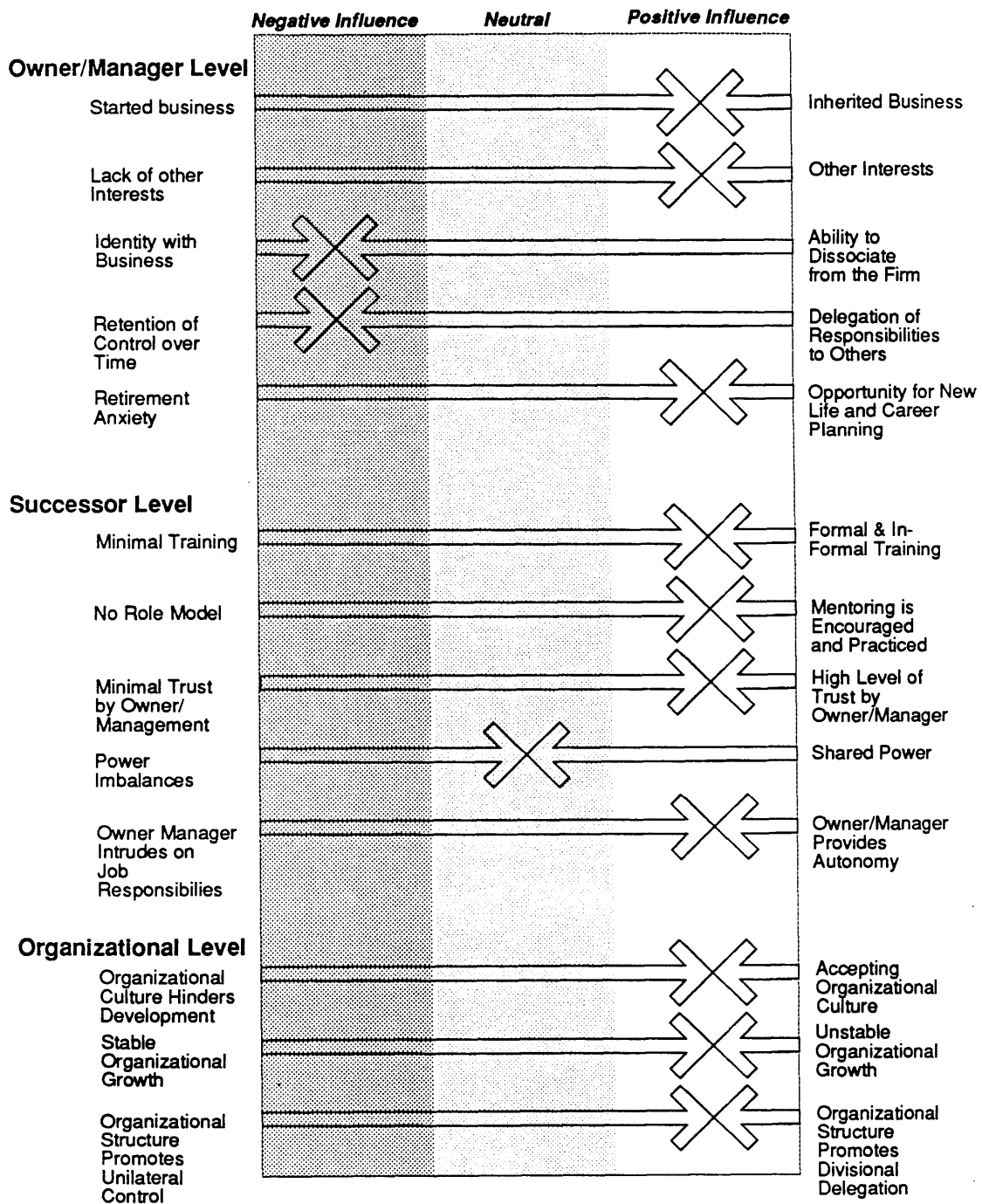
Finally, on the Organizational Level, the children in both families were satisfied with their position of being a son of the boss. An accepting organizational culture is a positive force facilitating the succession process. With respect to the entry of the successor, the discussion of *Stage II*

illustrated how both the organizational growth and the degree to which the industry is divisionalized can have an influence on the effectiveness of the succession process.

The influence of each factor can be assessed for both the Johnson and Fordham families. Each of the factors listed in the four categories was rated according to the owner/manager's and the sons' responses in the case study. A simple scale of "negative influence", "neutral", or "positive influence" ratings of each factor will be used. *Figure 4-4* and *Figure 4-5* show the force field analyses of the Fordham and Johnson family businesses, respectively.

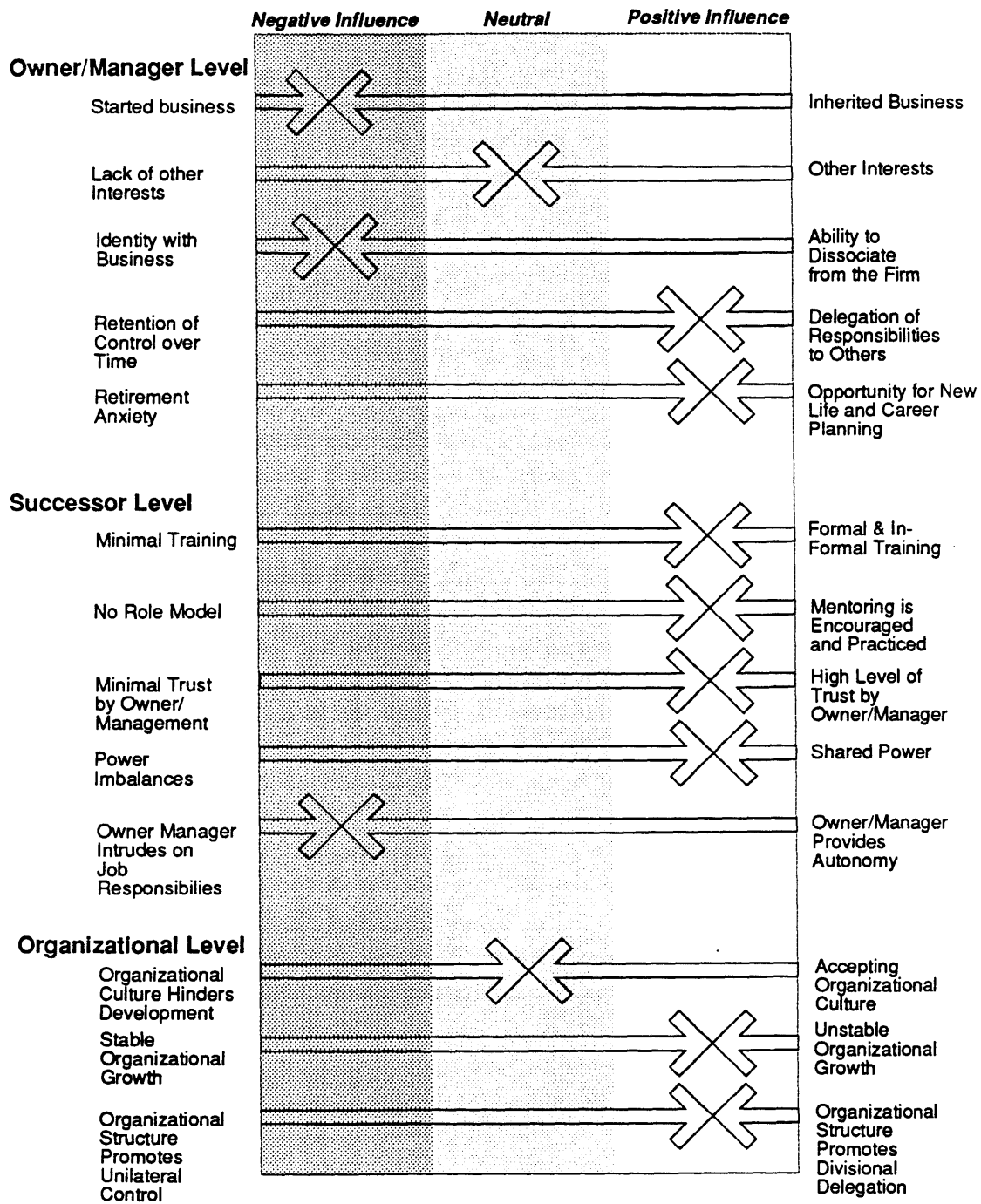
The force field analyses show that many of the positive influences on the succession process are present in both cases. Thus, the probability of effective succession would appear relatively high in both cases. Upon comparison, the analyses indicate that currently, more of the positive factors are present in the Fordham case than in the Johnson case. This finding indicates that probability for effective succession is higher in the Fordham case relative to the Johnson case. But because of the ten year age difference in the two families, the ratings for the Fordham case are likely to change as the family progresses further through the life cycle model. As the Fordhams move into *Stage III (Partnership)* of the model, the ratings in the Owner/Manager

Figure 4 - 4
Force Field Analysis:
Fordham, Levitt, & Lear



Adapted from: Handler & Kram (1988), p. 375.

Figure 4 - 5
Force Field Analysis:
Johnson Companies



Adapted from: Handler & Kram (1988), p. 375.

Level may become a *neutral* or a *negative influence*, as Ben Fordham is pressured to share more and more power with his son(s). Likewise, the entry of younger Fordham sons or other family members may reduce some of the ratings in categories as well. For example, on the Organizational Level, the non-family members within the organizational culture may have a less accepting attitude of the "son of the boss" if at some point it becomes the "sons and other extended family members of the boss". This change could become a negative influence on the succession process, thus reducing the chances of effective succession.

As with the life cycle model, the force field analysis is not a static phenomena and the ratings in each category will change over time. The analysis presented here is intended to give a single "snapshot in time" of the probability of effective succession. It is also important to note that force field analysis does not consider the effects of the relationships among the factors. The interrelationships between forces may also have a bearing on the probability of effective succession--increasing the positive influence of one force may also increase the influence of another force.

CHAPTER FIVE

SUMMARY AND IMPLICATIONS

My successful owner/managers think of themselves as high velocity speed boats--zipping from point A to point B...reacting very fast to the changing waters.....always steering fast and furiously. I try to get them to see that they are really large aircraft carriers...they have a large crew. If they want to change direction...it is a long process...it may take as much as 15 miles to before the ship begins to turn.

Davidow, Consultant, 1989

The model describes succession as a process, and the case data presented in this thesis support the notion of process. What have we learned from the succession model and the experiences of family-owned real estate development companies?

There may be a higher probability of an effective succession process in real estate development organizations because, in most cases, they are highly divisionalized. This type of organizational structure provides opportunities for family members to use their different skills and interests for the company's benefit, while at the same time, offers autonomy in the business environment. The case studies confirmed the opinions of the literatures and consultants that most development organizations have different divisions of

operation. These divisions can be thought of a "sub-businesses" of the overall company. The specific divisions will vary from firm to firm depending on the company's size, market, or product type. Common divisions are real estate brokerage and construction.

In the development industry, an opportunity exists to take advantage of these component businesses by matching the skills and interests of the various family members with a job in which they will excel. In some cases, this "match" may mean expanding an existing business division or creating a new division (as in the Johnson case study). Development companies have the opportunity to operate as a "family of businesses," all under the family name. Opportunities for enhanced *Training and Development (Stage II)* and more "sharing of power" between the owner/manager and the successor(s) (*Partnership--Stage III*) increase the likelihood of a more effective succession in the business.

The advantage of the real estate development industry is that its readily divisible. Especially important in multi-sibling succession is the ability to create divisions within the firm; this helps in making multi-sibling succession work.....its (real estate development) an opportunity for control and autonomy, though it may cost money to decentralize.

Hollander, Consultant, 1989

As in other industries, the successor's "learning" in the real estate development field is an important part of the succession process because it increases competency in the

industry. Increasing the successor's competency tends to increase the owner/manager's trust in their abilities to share job responsibilities. In all of the data from the literatures, consultants, and case studies, "learning" was extremely important. Whether on the job or in a more formal setting such as a college institution, industry-specific education (*Training and Development-Stage II*) will further increase the owner/manager's trust, a catalyst for sharing and transfer of managerial power (*Stages III and IV*).

The effectiveness of the succession process is influenced by many factors which relate to the owner/manager, the successor(s), and the organization. In other words, succession is not simple. Every family business is comprised of unique individuals with particular business circumstances. This helps to explain why no one prescriptive model has been developed for succession in family businesses.

Moreover, helps to explain the seemingly random outcomes of the succession process--or why some firms "make it" and some do not. For example, a family business may not have a well-defined succession plan (as in the case studies). Yet because the family naturally moves through different generations, the business progresses through the four life cycle stages of *Owner/Manager, Training and Development, Partnership, and Transfer of Power*. Even with no set plan, the business succeeds because the positive influences increase the probability of effective succession.

Conversely, a family business with a detailed succession plan may fail because of negative influences. The unrecognized degree of influence of these factors may help to explain the statistic that only three in ten family businesses survive beyond the first generation.

Towards Effective Succession

The success of the family business depends on a combination of economic and non-monetary factors. Family pride, reputation, and personal satisfaction, combined with the influence of family traditions, non-immediate family members, and the desire for family harmony all affect the outcome of the succession process.

There is no "magic formula" for achieving effective succession. But this study shows that family members can be informed by specific factors which can increase their businesses' chance of achieving a more effective succession process. The key is in understanding the process.

Think of the whole succession process as some ice cubes in a bowl. When the ice is solid, the job roles and responsibilities are pretty well set...or solid. But over time, the ice will constantly melt and freeze, depending on certain influences like temperature, the number of cubes, etc. So, as the ice melts into water, the job roles become less distinct...and when the ice refreezes, the structure and position of the cubes may have totally changed...just like in the organization. What's really important in

succession is the idea of anticipating the stages of the process.....you see, in a constantly changing environment like we live in, the ice is always either thawing or melting.

(Anonymous second-generation participant)

APPENDIX A-1

CASE STUDIES INTERVIEW PROTOCOL

OWNER/FOUNDER:

Can you give me a brief description of the background of the company? (employees--family/non-family?)

How would you classify your management style?

How are the major business decisions made now?

How is legal "ownership" of the company held now? How will it change?

How do you see the company's organizational structure in the future?

Do you have a succession plan? How did it evolve?

What are the most common day to day conflicts which arise and how are they handled?

Do you think that experience outside the company is important? Do you feel like their was a training period for your son/daughter? When did it begin?

If your child were a different age or in a different phase of life, how would this affect the succession plan?

How do you think that your age and personal life stage affects how you manage the family business? How about your son/daughter's?

Were there times in which you have worked better or worse with your son/daughter than you do today?

When you move on from the company, do you think it will be hard for you to stay out of the day to day business?

It's natural for any founder to feel "resistant" about giving up some power within the business. How do you feel about moving out of the business?

What other dreams do you have besides running the business?

What do you think was (will be) the hardest part of the planning the succession process?

SUCCESSOR:

Tell me about your background.

When would you say that you started learning about the business? Do you think that experience outside the company is important?

What's good about being the son/daughter of the boss? Are there any disadvantages?

What prompted you into going into the family business?

Who determined the entry level position and pay when you come into the business? Did you go through a period of training and development?

What was the biggest mistake that you've made? What do you think is your biggest accomplishment?

Did you ever feel at some point that your family had more confidence in you than you did yourself?

When you get together for a family event, do you find yourself at some point talking about business?

Is it ever a problem keeping family personal relationships out of business matters?

Has your father left you alone enough to run your part of the business? What keeps him away?

Would you say that you and your father are a lot alike?

How do you think that your age and personal life stage affects how you fit into the family business? How about your father's?

Were there times in which you have worked better or worse with your father than you do today?

Tell me about some of your visions or goals in the future--how do you think the company's business strategy will change in the future?

Do you think that there are differences transition from the first to the second generation, as contrasted to the second or third generation in a family business?

What's the greatest benefit in choosing to continue the family business?

What was (will be) the hardest part of the succession process?

APPENDIX A-2

CONSULTANTS INTERVIEW PROTOCOL

What makes someone from a family business call you? What is their expectation?

Do you have "ground rules" that you establish before you agree to deal with a client?

Is there a model for succession planning which you use in your consulting practice? What are the general procedural steps? (business stage--ages in family--stages of succession)

Do you find that the age of the parent and child affects their working relationship?

What does a consultant really do with a client to overcome the barriers or objections to succession planning?

At what age do you find the child's learning process about the business begins? How long is the child's training and development stage? Does this affect the succession plan?

Do you think that business experience outside the family business is important?

Some of the literature says that there is usually a period of partnership between the founder and successor--where power is shared and decisions are made jointly. From your experience, have you found this to be true?

How do you approach the situation when its clear that the best choice for the successor is not necessarily a family member?

Do you run into problems in dealing with non-family employees in a family-owned business in terms of their own career goals and aspirations?

Often, a child may have very different interests and talents than his/her parent. How does this affect the succession process?

Do you see a difference in attitudes between the first generation succession and the second or third generation?

In your experience, are there particular aspects about the real estate or real estate development industry that affect the succession process?

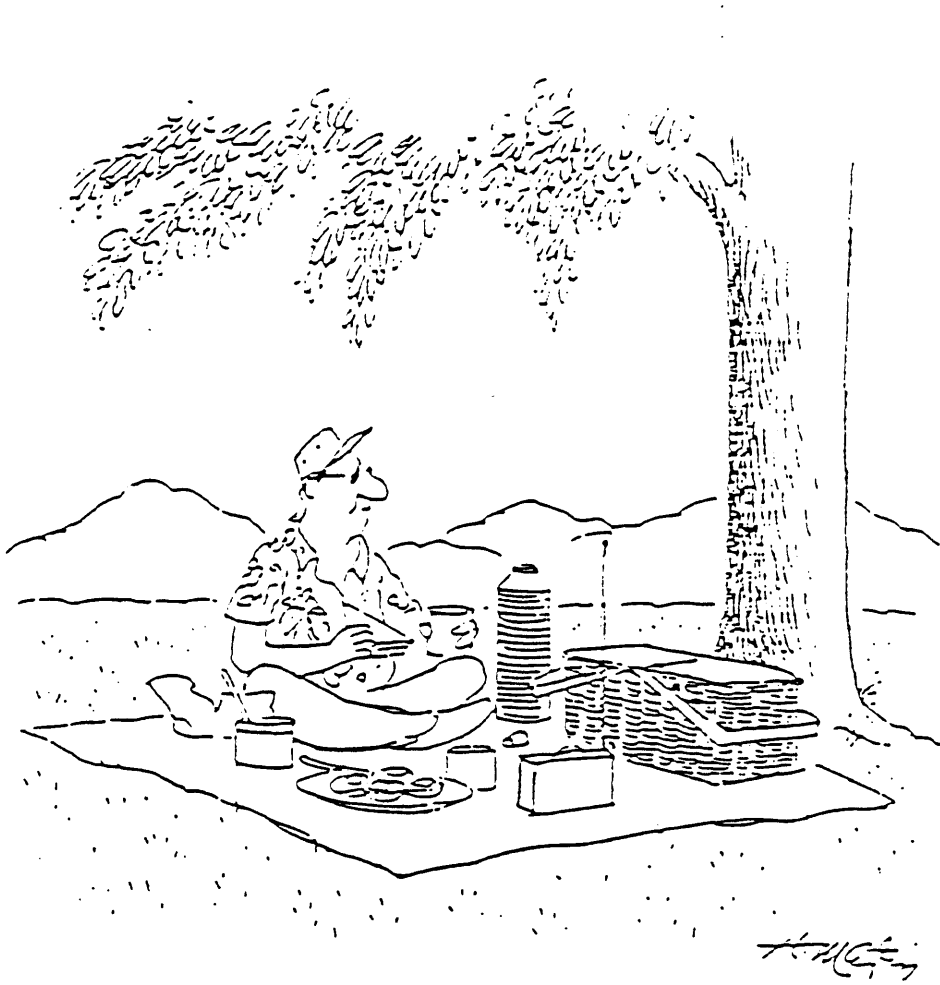
What would you say are the three most important factors in succession planning?

Despite good intentions, what have you found to be the biggest potential trap in helping family businesses?

Are there any aspects of real estate or real estate development that affect succession?

Finally, what would you say is your biggest challenge in your consulting work, and what is your biggest reward?

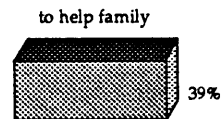
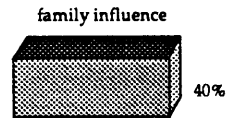
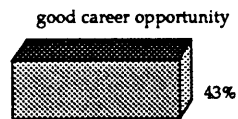
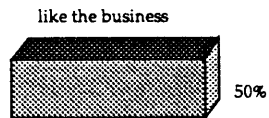
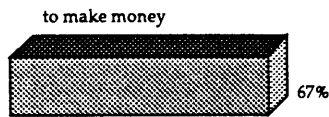
APPENDIX A-3
The Owner/Manager Business



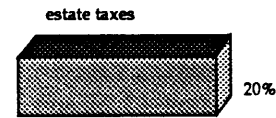
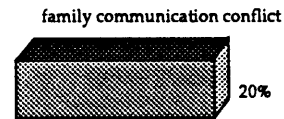
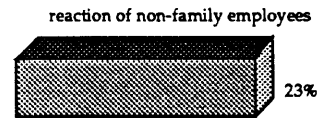
Wally Prestwicke, Self-Employed, Holds His Annual Picnic

APPENDIX A-4
Reasons for Passing/Entering the Family Business

Reasons children most often give for entering family business:



Biggest concerns entrepreneurs have in passing the business on to their children:



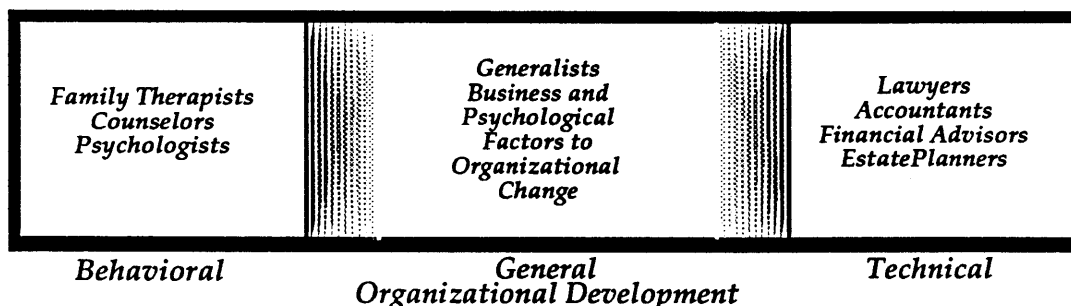
source: Survey by Nancy Bowman-Upton, Baylor University

APPENDIX A-5

A NOTE ON FAMILY BUSINESS CONSULTANTS

A note is appropriate here with respect to consultants who specialize in advising family-owned businesses. During the course of this research, I had the opportunity to contact various consultants and practitioners from around the country. From my interviews and conversations with these experts, I found a notable difference in the different approaches of various consultants in their approach to succession in family businesses. I believe that the family business that may consider using professional consulting services in the future should be informed as to the typologies of consultation services available.

Based on my experience, there appears to be three disciplinary approaches to family business consultation, which can be depicted across a spectrum.



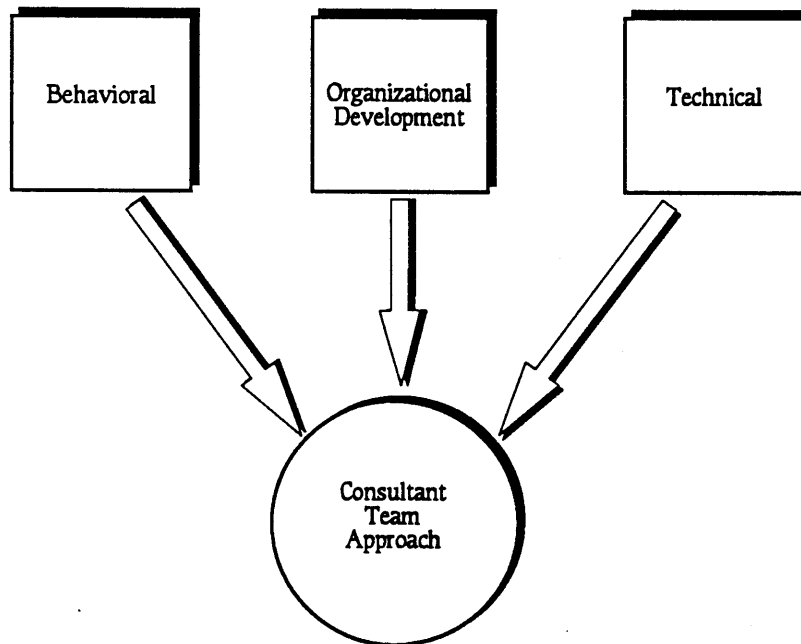
A Spectrum of Family Business

The right side of the spectrum shows the technical advisory contingency. This group includes such advisors as lawyers, accountants, financial consultants, and estate planners. The predominant mission of this group is to advise the family business on issues of ownership transition. These consultants' expertise can help guide the family business through a carefully timed transfer of company assets (stock, real property, service contracts) through the use of such tools such as wills, gifts, and family trusts.

On the other end of the spectrum, the behavioral consultants include the family therapists, counselors, and psychologists. This group focuses on the personal and interpersonal relationships in the family with respect to the business. These consultants help guide the family through the psychological and emotional aspects of managerial transition in the family firm.

In the middle of the field are the organizational development specialists. The advantage of employing professionals from this group is that these consultants seem to have an understanding of the structure of the overall spectrum of approaches. Although they are not technical advisors, they understand the essential business issues of ownership transfer. And while most are not professional therapists, they appreciate the emotional and psychological aspects involved in managerial transfer in the family business. The approach of this group's consultation is more general (but perhaps less in-depth) than their colleagues to the right or left of them on the spectrum. A disadvantage of this group can be that they may not have the expertise to offer in a needed advisory capacity.

Many consulting firms will offer family consultation services using a team approach, where each consulting team is comprised of one or more individuals who specialize in each one the specific areas on the spectrum. The team approach can offer the family a wide range of services within one consulting firm. This approach is growing in popularity in the consulting industry, because experts are recognizing it to be a more "wholistic" approach to the problems of family businesses.



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